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BY U.S. SERVICE MEMBERS

A thesis presented to the Faculty of the U.S. Army
Command and General Staff College in partial
fulfillment of the requirements for the
degree

MASTER OF MILITARY ART AND SCIENCE

by

JANET G. GOLDSTEIN, LCDR, USN
B.S., University of Illinois, Urbana, Illinois, 1985
M.S., Naval Postgraduate School, Monterey, California, 1991

Fort Leavenworth, Kansas
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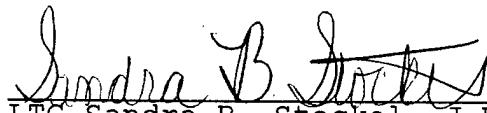
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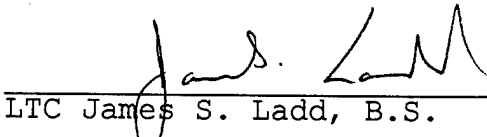
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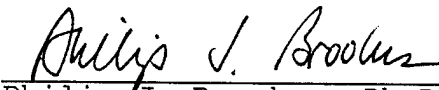
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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

ABSTRACT

AN ANALYSIS OF THE MECHANICS OF BLACK MARKETING BY U.S. SERVICE MEMBERS by LCDR Janet G. Goldstein, USN, 129 pages.

This study examines the mechanics of black marketing by U.S. service members to determine ways to curtail or eliminate such illegal operations, which undermine U.S. national security. Actual court-martial cases of U.S. service members prosecuted for black marketing were empirically analyzed to determine the mechanics of the illegal operations.

The results indicated that U.S. service members engaged in three different types of black market operations: illegal transfers of tax-free goods, illegal transfers of government property, and illegal currency transactions.

This study suggested that black marketing by U.S. service members was difficult to curtail due to the wide variety of mechanics employed, lack of prevention assistance by foreign host nations, and ineffective U.S. controls. Consequently, U.S. prevention efforts should concentrate on eliminating the root cause of such illegal operations: trade barriers erected by the host nation against foreign imports. Existing status of forces agreements should also be rewritten to more equitably distribute the burden of prevention efforts. Finally, U.S. prevention efforts should focus on problem areas and ensure the congruence of goals and controls.

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CHAPTER 1
INTRODUCTION

Background

Black marketing by active duty members of any military service branch (Navy, Air Force, Army or Marines) has long been considered an undesirable activity which is contrary to our national interests as well as those of foreign countries. *The Law of Land Warfare*, a U.S. Army field manual which provides guidance to military personnel concerning laws applicable to the conduct of warfare on land, states in paragraph 398: "Neither officers nor soldiers of the United States are allowed to make use of their position or power in the hostile country for private gain, not even for commercial transactions otherwise legitimate."¹ Concerning currency and exchange controls in occupied territories, the manual states in paragraph 430 that although an occupying power is permitted to use its own currency, issue currency or institute exchange controls in the occupied territory, "such measures must not, however, be utilized to enrich the occupant."²

In another U.S. Army field manual which governs peace operations, commanders are advised to conduct an analysis of the local area as part of their intelligence-preparation-of-the-battlefield to include an examination of the "monetary

systems and currencies used by the populace" and "black market activities conducted within the area of interest."³

In addition to the general guidance provided to U.S. service members concerning the conduct of warfare and peacetime operations, specific guidance was sometimes issued for a particular conflict or area of operation. For example, a Combined Chiefs of Staff directive outlining American-British joint occupation policies in Sicily during World War II in 1943 provided the following economic guidance to civil affairs officers: "Maximum prices and rationing of important staple commodities shall be quickly established. Black market practices and hoarding shall be severely punished."⁴ Similarly, in Korea,

Public Affairs Office (PAJ), USFK, prepares numerous articles, fact sheets, and a pamphlet on ration control and black marketing. Additionally, education on prohibited activities and consequences of getting involved in black market activities are topics that receive command-wide publicity. Annually, PAJ publishes an information pamphlet that is given to all newly assigned personnel. This pamphlet educates the individual on his/her ration limits, items that are controlled (high value items) and must be accounted for, the importance of keeping records, and a warning about getting involved in the black market.⁵

In addition to guidance issued unilaterally by the U.S., multilateral agreements or treaties between countries often expressly prohibit black marketing activities by foreign military forces stationed in a host nation. Such proscriptions are most typically addressed in status of

forces agreements (SOFA), which govern the legal status and conduct of one nation's forces in another country. For example, the North Atlantic Treaty Organization (NATO) SOFA of 1953 states: "Goods which have been imported duty-free . . . shall not normally be disposed of in the receiving State by way of either sale or gift."⁶

As another example, a 1954 supplement to the foregoing NATO SOFA governing the status of forces stationed in Germany states: "Disposal of goods imported duty-free or acquired under tax-relief shall be permitted among members of the forces, of the civilian components and dependents. Unless exceptions have been generally authorized by the German authorities, disposal to other persons shall be permitted only after notification to, and approval of, the German authorities."⁷

Similarly, an agreement in 1963 between the U.S. and Turkey relative to the NATO SOFA states:

It is further agreed that special military agencies as post exchanges, commissaries, and officers' clubs will be permitted to operate at agreed locations without licenses, inspections or taxes and other charges. Administrative measures shall be taken by United States military authorities, in cooperation with the appropriate Turkish authorities, to prevent the resale or transfer in any way of merchandise sold under the provisions of this paragraph to persons not entitled to purchase items from such agencies, and generally to prevent the abuse of the facilities provided for in this paragraph.⁸

When service members violate proscriptions against black marketing, they may be prosecuted under the Uniform Code of Military Justice (UCMJ). Although the UCMJ does not specifically mention black marketing in any of its punitive articles, such behavior is usually prosecuted under one or more of the following UCMJ Articles: 80 (attempt to commit a punishable offense, such as larceny or black marketing), 92 (failure to obey a lawful order or regulation), or 134 (conduct of a nature to bring discredit upon the armed forces). Depending on the particular case, other articles may also be violated, such as 107 (signing a false record or official document), 108 (loss, damage, destruction or wrongful disposition of military property), or 121 (larceny and wrongful appropriation).⁹

This thesis examined the legal cases of U.S. service members who were prosecuted through the military judicial system for their black-marketing activities to determine empirically the mechanics of their illegal operations. These mechanics were then analyzed to gain a better understanding of how service members conducted their black market operations. It was hoped that such an understanding would help to suggest ways to curtail or eliminate black marketing by U.S. service members, since such illicit activity has negative implications for U.S. national security, which will be discussed later in this chapter.

Research Questions

The primary research question in this thesis, which will be answered in Chapter 5, "Conclusions and Recommendations," is as follows: "Does an analysis of the mechanics of black marketing by U.S. service members suggest ways to curtail or eliminate such illegal operations?" To help answer the primary research question, this thesis will first address the following secondary research questions in Chapter 4, "Analysis":

1. What types of black market operations are conducted by U.S. service members? (i.e., What kinds of goods are involved?)

2. How do U.S. service members conduct their black market operations? (i.e., How are the goods obtained? How are the goods sold? Are there accomplices?)

3. Are there any similarities or "fact patterns" in how the various types of black market operations are conducted by U.S. service members?

Assumptions

The decision to use data drawn from legal cases required that certain assumptions be made concerning this study, as explained below.

Cases Adjudicated per Regulations

The cases used for analysis in this thesis were assumed to be properly adjudicated through the U.S. military

judicial system in accordance with all applicable rules, laws, and regulations. The *United States Manual for Courts-Martial* governs the proper handling of military judicial proceedings from initial investigation to final appeal. Some military cases may also be reviewed by the United States Supreme Court.¹⁰ Such cases were, likewise, assumed to be properly adjudicated in accordance with applicable civil laws and regulations. Consequently, the cases are assumed to be valid sources of information on the mechanics of black marketing by U.S. service members.

Cases Adjudicated by Competent Personnel

The cases were also assumed to be adjudicated by fully qualified and competent personnel. In other words, it was assumed that there was no negligence or corruption on the part of any legal or judicial personnel involved in presenting, reviewing, or deciding the cases which would skew the facts as recorded. Accordingly, the data presented in the cases was assumed to be accurate for the purpose of determining the mechanics of black marketing by U.S. service members.

Cases Assumed Sufficiently Comprehensive

Only that information which was recorded in written form in the case records could be used for this study. No additional tapes, transcripts, verbal comments, or unofficial records were available. Also, only appealed case

decisions were examined; decisions from lower courts were not examined due to their general unavailability. Consequently, only those facts recorded in the appealed case decisions were used in this study, although such facts may not have been as comprehensive as those contained in case summaries from lower courts. This is due to the fact that adjudicators often include in their final written decisions only those facts which they feel have a direct bearing on their case decision. Since only one or several legal issues may be in question in appealed cases, adjudicators concentrate their attention on those case details most directly relevant to deciding the issues at hand. Consequently, not all facts of a case may be recorded in an appealed case summary. In other words, the facts recorded in a particular appealed case may be accurate and correct, but not necessarily complete or comprehensive. Despite the foregoing, this thesis assumed that the cases were sufficiently comprehensive to permit a meaningful analysis of the mechanics of black marketing by U.S. service members.

Cases Assumed to Be Representative

As stated previously, this study examined only those military cases which were appealed. It is important to note, however, that such cases were appealed or referred based on questions of legal issues, not facts contained therein.¹¹ In other words, how a certain type of black

market operation was conducted had no bearing on whether or not the case was appealed. As a result, the cases were assumed to be a random and representative sample of cases involving black marketing by U.S. service members.

Key Terms

Some of the frequently used terms in this thesis which have specific meanings within the context of this document are defined below:

Black Market. An unofficial market that may arise when a government keeps the price of a product or rate of exchange for a currency above or below its equilibrium rate (e.g., that price or rate which would prevail in an unregulated economy).

For example, governmental production or import restrictions may cause a shortage of a given product, which usually increases the price of the product. To keep the price of the product down, governments may ration the available product among buyers. Given that some buyers will be prepared to pay a higher price to acquire the product, some dealers will be tempted to divert supplies away from the official market to earn additional profits. In this way, dealers create an under-the-counter secondary market consisting of those buyers willing to pay more.¹²

As another example, governments may impose tariffs or taxes on imported goods to ensure that domestic goods are

priced lower and more competitively in comparison.¹³ Given that individuals would prefer to pay less for the goods, enterprising individuals may attempt to smuggle goods into the country to avoid tariffs or taxes, or acquire duty-free military goods, and then sell the goods above cost but below domestic prices for handsome profits.¹⁴

Similarly, when governments control rates of currency exchange, the official rate of exchange for a given currency is kept artificially higher than its actual value on the street. In such a situation, individuals may speculate in currency by acquiring large quantities of the controlled currency at its lower street value and then exchanging it at its higher official exchange rate to obtain greater quantities of foreign currencies. This cycle is repeated continuously to accrue ever greater profits.¹⁵

Black Market Operations. Illicit trading in goods for profit in a black market. Note that it is how the goods are traded which is illegal (e.g., in violation of government regulations, such as rationing laws or official rates of currency exchange), not necessarily the goods themselves (although the goods may, in fact, be declared illegal).

Black Marketing. Same as "black market operations" above.

Fact Pattern. Similar, recurring details in the mechanics of different black market operations.

Mechanics. The details of how a black market operation is conducted.

U.S. Service Member. Active duty member of any of the U.S. military services or armed forces (Air Force, Army, Navy, or Marines).

Limitations

This thesis relied completely on written information provided from appealed legal cases. As a result, there were several important limitations of this thesis as discussed below.

Limited to Using Only Adjudicated Facts

To determine the mechanics of black marketing by U.S. service members, this thesis relied completely on, and was limited to using, only those facts which were determined or established during the course of various legal proceedings. The depth and breadth of factual detail which arose out of each case necessarily depended on the professional skills of the attorneys, investigators, and adjudicators involved. Any case details which were not discovered or brought out during the legal proceedings by the various legal personnel could not, obviously, be used for this thesis.

Limited to Using Only Written Facts

This thesis was limited to using only that information which was actually recorded in the case summaries. There were no other tapes, transcripts, or unofficial records

available. Also, adjudicators may have included in their written decisions only those facts which they felt had a direct bearing on their final decisions. They may have excluded from the written record any facts they considered irrelevant in deciding the appealed cases. Such excluded facts could not, obviously, be used in this study.

Limited by Accuracy of Materials

The legal cases used in this thesis were obtained using indexes to the LEXIS legal computer database and the corresponding case books. Consequently, any inaccuracies in such indexes may have reduced the number of cases available for this study. For example, if a case involving black marketing were indexed under "gambling" instead of "black marketing," then the case would not be accessed and included for analysis in this thesis. Also, any facts left out of the final printed case summaries would obviously not be available for use in this thesis.

Delimitations

Due to time and availability constraints, there were several important delimitations to this study.

Appealed Cases Only

Only those cases referred to the military appellate courts for review were included in this study instead of those cases which were adjudicated at a lower level in the judicial system. (Note that there are two levels of

appellate courts in the military judicial system, which have the power to review decisions of lower judicial proceedings. The highest level is the Court of Appeals for the Armed Forces, which was known as the Court of Military Appeals prior to 5 October 1994. The second highest level is the Court of Criminal Appeals, which was known as the Court of Military Review prior to 5 October 1994.) This was due to the difficulties involved in obtaining the summaries of cases adjudicated at lower levels. In contrast, appealed cases were readily accessible via the LEXIS legal computer database. Realistically, time constraints necessarily precluded the long lead time which would have been required to procure the lower court cases as well as the time it would have taken to examine so many legal cases even if they could have been obtained.

Cases Since 1951 Only

As noted above, the legal cases used in this thesis were restricted to those accessible on the LEXIS legal database. At the time this thesis was conducted, the database included only those court-martial cases which were referred to and reviewed by the military appellate courts during the time period 1951 to 1997. Consequently, cases which were adjudicated prior to 1951 were not included for study in this thesis.

Black-Marketing Cases Only

Only those cases involving black market operations by U.S. service members and listed in the LEXIS database or case study indexes under "black marketing" were included for study due to their relevance to the subject matter of this thesis. LEXIS separately indexes cases involving drugs, which were not included for study in this thesis.

Significance of the Study

According to President Clinton, the three core objectives of America's national security strategy in 1997 were "to enhance our security with effective diplomacy and with military forces that are ready to fight and win, to bolster America's economic prosperity and to promote democracy abroad."¹⁶ Black marketing by U.S. service members impairs America's ability to achieve all of the three above national security objectives as discussed below.

Black Marketing Impairs U.S. Security

Black marketing by military members impairs the security of the U.S. in two ways: (1) by undermining U.S. diplomatic efforts and (2) by undermining the performance of U.S. service members.

Undermines Diplomacy

The U.S. cannot expect foreign countries to respond positively to its diplomatic efforts if its service members are undermining their national economies through black

market operations. SOFAs prohibit black marketing by one nation's forces in another country because such illegal operations impair the host nation's economy. How does this happen? A review of basic economics provides the answer.

During wartime, a nation must necessarily divert some of its manufacturing capacity from the production of consumer items for profit to the production of those items essential to the war effort, such as munitions. The result is that many consumer items are in short supply and cannot meet demand. In an unregulated economy, the price of such consumer items would increase considerably since many people would be willing to pay more for the fewer goods available. The result is that richer individuals are better able to afford such products than their poorer counterparts. Due to the perceived moral unacceptability of such a situation, especially in the case of essential consumer goods, such as food and gas, most governments ration such goods to ensure a more equitable distribution. Usually, this is done by imposing price controls (e.g., setting maximum prices for essential items) or establishing quotas for the maximum amount of an item each person can buy.

Black markets damage the equitable nature of such a rationing system by distributing (e.g., selling) goods to those most able to afford the higher prices to the detriment of those who cannot. Since suppliers are enticed to divert

their goods from official markets to the black market where they can earn higher profits, less goods are available in official channels at lower prices for poorer individuals who cannot afford black market prices. Black markets also encourage suppliers to divert their manufacturing capacity from the production of war goods to black market goods with their promise of higher profits, which undermines the country's war effort.

In peacetime, black markets may also impair a country's economy. Countries may impose tariffs or taxes on foreign imported goods to give a favorable trade advantage to their domestic products, which are then cheaper in comparison and so in higher demand. Enterprising individuals may get around such tariffs, however, by smuggling foreign products into the countries to avoid paying the tariffs or taxes. Similarly, members of foreign forces stationed in the host nation may sell items from their military exchanges or commissaries, which also avoid the tariffs and taxes because they are usually permitted to be imported duty-free.¹⁷

Under either scenario, the sellers can earn tremendous profits, because goods can be sold at prices that are much higher than their cost, yet still be well below the prices of domestic goods so that both buyers and sellers are extremely satisfied. Such a black market, however, encourages the citizens of the host nation to purchase the

black market goods rather than their country's domestic goods. This negatively impacts the economy of their country because less domestic products are sold, thereby, reducing income for the nation's suppliers. The country also loses the money it would have earned from tariffs and taxes on the black market goods had they entered the country through official channels.

Undermines Performance

Additionally, the U.S. cannot expect its service members to be focused on performing their military duties during times of peace or war if they are preoccupied with conducting black market operations for personal gain. In World War II, "wine and women no doubt had some adverse effects on the discipline and efficiency of the American military establishment in Germany, but it was the black market that proved to be the most insidious, the most widespread, and the most demoralizing factor of all."¹⁸ One report described the effects of black marketing by soldiers on military discipline during World War II as follows:

The greed it inspired, the extent to which it interfered with the work of military government, the distorted sense of values it created, and the extent to which it discredited Americans in the eyes of the Germans--all of these were more important than the monetary cost. From personal observation, it can be reported that a man who was badly bitten with the black market bug was of no value to military government. Not only did he spend much of his time planning and carrying out his deals; but also, if he did decide to

devote some of his time to his duties, he was in no frame of mind to do effective work.¹⁹

Black Marketing Impairs U.S. Economy

Black marketing by service members weakens the nation's economy by draining money from the U.S. Treasury to support illegal activities. For example, a 1989 Senate investigation of the wide-spread black marketing in South Korea of U.S. goods which were imported duty-free estimated that "for every dollar spent in the U.S. Forces Korea retail outlets on items for the black market, the American taxpayer pays about 14 cents in taxes to support the black marketeers" or a total of about \$7 million each year.²⁰ This tax money paid for the transportation costs involved in importing the duty-free goods into Korea.

There were other monetary costs as well: about 20 percent of law enforcement time in South Korea was spent controlling black market crime; the ration control system in place cost \$12.1 million per year to administer; and since black market goods bypassed the normal legal channels of commerce, U.S. businesses forfeited any potential business profits they could have earned by legitimately importing their goods into South Korea.²¹

There were also other related costs of black marketing which could not be measured in dollars. For example, many products became unavailable in the exchanges and

commissaries because they were diverted to the black market, which was not only inconvenient but hurt the morale of honest shoppers. Additionally, the black market began to dictate which items were stocked in the commissaries and exchanges. For example, exchanges began to heavily stock rice and spam, which were popular black market items because they were in such high demand by South Koreans.²²

As another example of the high cost to the U.S. Treasury of black marketing by U.S. service members, one need only look at the issue of currency exchange during World War II. U.S. Army soldiers usually received their pay in the local currency of the country in which they resided. To obtain U.S. dollars, they had to convert their local currency. Since the U.S. Treasury had appropriated funds equal only to each soldier's pay and allowances, soldiers who converted local currencies into U.S. dollars in amounts greater than their pay and allowances caused Treasury overdrafts. Such a situation routinely occurred when soldiers converted black market profits along with their pay into U.S. dollars. In effect, the U.S. Treasury financed the soldiers' conversion of black market profits into U.S. dollars. The total overdraft for World War II amounted to \$530,775,440.²³

Black Marketing Impairs U.S. Democratic Ideals

The U.S. cannot credibly promote democracy abroad when its service members, who should be setting the national example as uniformed representatives of their country, are engaging in illegal black market operations, thereby, disrupting foreign economies as well as their own.

This thesis was undertaken with the goal of obtaining a better understanding of how service members conduct their black market operations to find ways to curtail or eliminate such illegal activities, thus, minimizing their negative impact on the U.S. national security strategy.

CHAPTER 2

LITERATURE REVIEW

This chapter will survey the status of the published literature on black marketing by U.S. service members during the twentieth century. Most sources provided information falling within one or both of the following two categories: (1) description of the nature and extent of black marketing by U.S. service members and (2) reasons why military members engaged in black marketing. Each of these categories will be discussed in turn.

Nature and Extent of Black Marketing

The literature documents the involvement of U.S. service members in black marketing only since World War II. The readings also indicated that military members engaged in such illegal activity during various types of military operations in times of both peace and war. The involvement of military members in black marketing during World War II was particularly well documented by Vladimir Petrov in his book *Money and Conquest* and by Walter Rundell, Jr., in his two books *Black Market Money* and *Military Money*. For example, according to Petrov,

In Berlin, as elsewhere in Germany, the black market centered around the Americans who suddenly discovered themselves in the enviable position of being monopolistic suppliers. The British had little to sell. The French had nothing But the American rations were bountiful; Post Exchange (PX) stores and

commissaries were overflowing with precious goods from the United States, supplemented by Swiss watches, Dutch cheese, French wine and cognac The Germans and the refugees needed food and cigarettes; the Russians needed other items, mainly whisky, watches, and cameras. All had money in abundance.²⁴

Similarly, Rundell describes how "citizens of Italy, possessing currency but few goods, were only too willing to pay inflated prices in the black market for necessities. And, there were always some American soldiers ready to sell post exchange items for a premium, hoping to convert some of their profits into dollar credits in the United States."²⁵

Rundell also describes the existence of a thriving black market in Japan:

Before the end of 1945, a full-blown Japanese black market had developed in American goods Soldiers could buy cigarettes, soap, and candy at reasonable prices in post exchanges, later selling these commodities at highly inflated prices on the black market. Since there was no property accountability, servicemen also sold their government-issue blankets, shoes, and clothing. These, too, commanded fancy prices on the black market.²⁶

More recently, according to the previously mentioned 1989 Senate investigation of the wide-spread black marketing of duty-free U.S. goods in South Korea, the producers of Spam estimated "that in 1987, 80 percent of their product sold on Army bases in Korea ended up in the black market. Other estimates range from 25 to 50 percent of products overall."²⁷ In fact, the investigation further revealed that on the streets of South Korea,

It is not difficult to spot the signs of black marketing. Large numbers of Korean markets and stores sell duty-free items. Many of the items still have price stickers from our exchange systems on them. When you peel back the Korean label, you will frequently find the exchange label or the commissary label Current sales rates for some items popular on the Korean economy, such as rice, Spam, hot dogs, cheese, and hair spray . . . are much higher than authorized consumers would normally consume. We saw large amounts of these items being sold on the black market.²⁸

In 1997, an Associated Press newspaper article reported that the Army reduced beer rations to the 37,000 soldiers in South Korea so that each soldier could buy only eight instead of 30 cases of duty-free beer a month. This action was taken in response to questionable sales figures that suggested that each soldier was drinking 24 cans of beer a day. Obviously, such was not the case; most beer sold was actually being diverted to the black market. Usually, the beer was skimmed from shipments and warehouses or simply bought from the commissaries or post exchanges and resold.²⁹

The 1989 Senate investigation explained that such black markets thrive in South Korea because "the goods which sell in the black market are either prohibited from legitimate import by the Korean government or they are subject to exorbitant tariffs and taxes which escalates their price in the legitimate marketplace to the extent that a markup of 200 or 300 percent is possible in the black market system."³⁰

As illustrated by the foregoing examples, foreign black markets which involve U.S. service members can only thrive if the following three basic economic conditions are met: first, there must be goods in the host nation which are either in short supply due to production, legal, or import restrictions, or priced artificially high due to the imposition of taxes or tariffs; second, there must be buyers who demand the foreign goods and are able to pay for them; and third, there must be suppliers of the foreign goods who are willing and able to sell them.

In their role as suppliers of goods to the black market, from where did U.S. service members obtain their goods? According to Petrov, "The American black market operator had four principal sources of supplies. One of them was 'legal,' in the form of packages he received from home. The other three were illegal: the weekly PX ration (the sale of which was, in theory, prohibited), the quartermaster's warehouse, and the mess halls."³¹

In addition to black marketing goods, Rundell describes how U.S. service members also engaged in currency speculation and counterfeiting during World War II:

Some American soldiers tried to profit from [currency] exchanges in local markets. They traded money locally for more francs and lire than they could get at army finance offices. Then they redeemed the francs and lire at a finance office. Since the official exchange rate prescribed fewer francs and lire to the dollar

than GIs had received on the local market, they would show a net dollar gain.³²

As explained by Rundell, during World War II, the Army was looking for a way to prevent soldiers from converting local currency acquired from black market profits into dollars to avoid overdrafts to the U.S. Treasury, which was only authorized to disburse monies equal to soldiers' pay and allowances. The solution was to issue soldiers' military pay and allowances in the form of scrip, also called military payment certificates (MPC), in lieu of dollars. MPC had the following advantages:

The features of scrip . . . were (1) the non-acceptance of scrip from unauthorized personnel (scrip finding its way into black markets would be irredeemable by the local population) and (2) the non-reconversion of local currencies into dollar credits. Any amount of scrip could be exchanged for local funds, but once exchanged, it could not be reconverted. By collecting through such official channels as finance offices, Army post offices, and post exchanges only what it had disbursed--United States-issued scrip--the Army would have an effective safeguard against any further overdraft. If soldiers acquired scrip from civilians in the black market and converted it into dollar credits, there would be no overdraft since the scrip had been originally issued by the United States Army and was therefore supported by appropriated funds.³³

Ironically, according to Petrov, although MPCs were introduced to reduce black marketing, they themselves actually became part of the black market system: "MPCs had a premium value on the black market where they were brought for hoarding purposes, for conversion by devious means into dollars, or for illegal acquisition of PX and other army

supplies. Despite army claims to the contrary, this demand for MPCs had not been seriously affected by the several conversions, on short notice, into new issues."³⁴ According to Fred Schwan in his index to government notes titled *Military Payment Certificates*, between 1946 and 1953, ninety different notes were issued in thirteen series.³⁵

During the late sixties, a Senate investigation was initiated concerning an extensive ring of corruption and mismanagement of the military club system in South Vietnam. The ring involved skimming of slot machines, requiring suppliers and contractors to pay kickbacks, bribing of senior military officers to gain their compliance and conducting illegal currency transactions to launder profits and speculate on the black market. In 1973, several military members who were convicted for their involvement in the ring provided information on their illegal activities to Senate investigators in return for leniency in their sentencing. (Prior to their convictions, these members invoked their fifth amendment right to remain silent.)

According to one U.S. Army sergeant convicted of fraud in connection with the ring, during the 1960s in South Vietnam, the use of MPCs led many soldiers to speculate in currency. He explained, "Most of them, when they went into Saigon, there was one place . . . that you could exchange MPCs for the piaster. At one time, the official rate was

70 piasters per dollar and over 80 on the street. They could get over 100 per dollar. . . . Everybody was doing it."³⁶

The sergeant further emphasized the widespread nature of U.S. Army soldiers' involvement in such currency manipulation: "Every man I dealt with from the 90th Replacement Depot club system, or that I had any dealings with during my entire tour in Vietnam, was involved in currency manipulation. I don't recall one company or one outfit that was not involved in it."³⁷

The same sergeant also detailed how changes in MPC issues presented additional moneymaking opportunities for enterprising soldiers: "Whatever the rumor was on the change on MPC, every time a rumor came out that MPC was going to be changed, needless to say, the people were trying to unload and get rid of them, and take the money back, and on an average, I cleared 40 percent."³⁸ He recounted how "he realized an even larger profit when dealing with concessionaires who were not authorized to accept MPC. In exchanging dollar instruments for MPC . . . he realized profits of from \$50 to \$55 for every \$100 exchange."³⁹

Additionally, he explained how currency conversion was used to convert MPC monies obtained from illegal activities into a form that could be more easily smuggled out of the country. The conversion costs could be considerable: He

once took "\$22,000 in MPC that had accumulated from illegal currency transactions involving club system chit books . . . and converted it through black market moneychangers into dollar instruments easily redeemable outside Vietnam . . . the moneychangers charged about \$5,000 to convert the MPC."⁴⁰

According to Petrov, MPCs were also easily counterfeited:

Although MPCs were supposed to be a dollar instrument, they were printed with great carelessness: the bills had no watermarks, and the first fake notes appeared only three weeks after the MPCs were introduced. No counterfeiters are known to have been caught; the counterfeiting of MPCs was on such a large scale that the Army had to call the old issues in and exchange them for new issues several times.⁴¹

Why Military Members Engaged in Black Marketing

This section explores some of the many reasons proposed in the literature as to why U.S. service members may have engaged in black market operations. Sources cited in this section that were mentioned previously include Rundell's *Black Market Money*, Petrov's *Money and Conquest* and the Senate hearings on both South Vietnam and South Korea. Additional works in this area include Clifton D. Bryant's *Khaki-Collar Crime*, which categorizes and provides reasons for various types of military crime; James Finn's *Conscience and Command*, which presents various readings on the sociological aspects of military life; Harry L. Coles' *Civil*

Affairs: Soldiers Become Governors, which describes the various operational environments of military civil affairs specialists during World War II; and Alan S. Milward's *War, Economy and Society* and Martin Kyre's *Military Occupation and National Security*, both of which describe the economic aspects of war. All of the foregoing sources provide an interdisciplinary look at why military members might choose to engage in black marketing.

High Profit Potential

Probably the biggest reason by U.S. service members engaged in black marketing was because such dealings were so lucrative. For example, Petrov describes how profitable such dealings were in Germany during World War II:

A pack of cigarettes bought by a GI at a United States Army Post Exchange for five cents sold on the black market for at least 100 marks, or \$10; a five cent candy bar sold for \$5; a pound of coffee, for \$25; a bottle of whiskey, for \$100; a Mickey Mouse watch, which cost \$1.98 at a PX store, sold for \$150-\$200 Thus, a GI stationed in Berlin for one year, who could sell all his ration of cigarettes, candy, and liquor on the black market would make a profit of about \$12,000. A few parcels from home could easily bring his yearly income to \$25,000-\$30,000, not counting army pay and allowances.⁴²

According to the 1973 Senate investigation of military club corruption in South Vietnam, during the 1960s in South Vietnam, soldiers who engaged in currency manipulation on the black market averaged a 35 to 45 percent profit.⁴³ Similarly, the 1990 Senate investigation of the extensive

black marketing of U.S. duty-free goods in South Korea indicated that during the 1980's in Korea, rice was sold on the black market with an almost 300 percent markup.⁴⁴ The previously mentioned Associated Press article on beer rationing in Korea noted that, in 1997, beer was black marketed in Korea at two or three times its selling price in post commissaries and exchanges.⁴⁵

Willingness to Assume Risk

According to Henry S. Bloch in his *Economics of Military Occupation*, both buyers and sellers had to be willing to assume the risks involved in black market operations in order to realize their economic gains. Obviously, such risks included being caught and prosecuted. Black market prices reflected the costs of such risks. In effect, a given black market price is the "true" price of an item based on actual supply and demand with an additional risk premium added to compensate the supplier for the potential dangers involved.⁴⁶

Without such a risk premium, classic economic decision theory as explained by Karl Henrik Borch in *The Economics of Uncertainty* predicts that any mathematically logical individual would engage in black marketing. This is because, according to theory, the average individual would choose whatever business or money making option maximized

their "expected gain" (i.e., income) as determined by maximum values of applicable mathematical equations.⁴⁷

Black market operations would definitely tend to maximize an individual's income and the attendant risk equation.

Since there is a risk premium involved, however, every person must individually determine its value and add it to the equation. The risk premium value will differ from person to person since, as Leonard Silk puts it in his *Economics in Plain English*, "the prime movers of economics [are] real people, with inner conflicts and confusions, appetites and egos, ids and superegos--their conflicting selfishness and worry about social standards and ethics."⁴⁸ Consequently, while most persons will attach such a high negative value to the risk premium involved in black marketing as to negate the potentially higher income earnings, others will attach a low value to the risk premium because they so greatly value the additional black market earnings. Obviously, U.S. service members involved in black market operations are in the latter category.

Prevalence and Accessibility of Black Markets

During World War II, U.S. service members were surrounded by black markets both at home and abroad. According to Milward in *War, Economy and Society*, "There were few countries where black markets did not exist as an

established method of allocation of supply."⁴⁹ In fact, as Milward points out,

In many occupied countries - Belgium was the most flagrant example - the black market was as active as the official food markets. . . . Illegal slaughtering of animals was common; in France the difference between the official figures for delivery of carcasses and the actual number of beasts slaughtered may have been as high as 350,000 a year. . . . As the black market developed into a network almost as comprehensive as the official market, rural inhabitants came to live more and more outside the framework of the official economic system.⁵⁰

Milward further notes that in Italy, "black market prices for basic foodstuffs in June 1943 were ten times the official prices and the amount of money in circulation quadrupled as the volume of goods available shrank."⁵¹ At one point, Italians could buy pasta, olive oil and horse beans only through the black market.⁵² Even more dramatic, as described by Coles in *Civil Affairs: Soldiers Become Governors*, in the tiny country of Tonga, a sudden influx of "United States soldiers caused the production of copra [i.e., dried coconut meat] to fall by 80 percent because most of the population made more money renting bicycles to soldiers for black market dollars."⁵³

U.S. service members were also exposed to domestic black markets. According to Thomas B. Worsley in *Emergency Economic Stabilization*, during the summer of 1944 in the

U.S., it was estimated that "the portion of meat sold in black markets may have been as high as 40 percent."⁵⁴

As a result of the foregoing, some U.S. service members may have felt that black marketing was not really illegal or wrong since it was so pervasive. They may have rationalized that "since everyone else is involved in black markets, I may as well join in, too." In addition, the great prevalence of black markets enhanced their accessibility, which further encouraged the involvement of U.S. service members in black marketing.

Boredom of Service Members

As Petrov points out, during World War II, "while the fighting continued, there was no vigorous test of the Army's [currency control] system. Military operations focused the attention of most soldiers on their duties so that there was comparatively little time to indulge in currency speculation."⁵⁵ When the fighting was over, however, "German cities were no more than piles of rubble, with starving and frightened people crowding the basements of the ruins and the few tenements which remained. Army recreation programs were still far off. The GIs . . . needed outlets for their energies. Such outlets were provided by wine, women, and the black market."⁵⁶

Effects of Military Training/Environment

Several authors--including Bryant in his book *Khaki-Collar Crime* and Peter G. Bourne, M.D., who authored an article in Finn's *Conscience and Command*--have speculated that the military environment in general, and military training in particular, seem to engender deviancy by U.S. service members. As stated by Bryant, "the unusual routines, pressures, stresses and problems endemic to military existence would appear to contribute to individual motivation for the violation of military norms, and to induce and encourage illicit behavior."⁵⁷ Bryant's examples of such military stresses included the rigidity of military discipline, the trauma of combat, the routine repetitiveness of training and drill as well as the loss of identity and autonomy in a rigid bureaucratic organization.⁵⁸

Bryant also described how behavioral norms necessarily differ between military and civilian life:

Military culture emphasizes the distinction between soldier and civilian and even attempts to exacerbate the contrast The soldier, by design and training, comes to enjoy a different existential reality. Conceptualizing the world differently, the soldier can more readily do those things that are required of the soldier but that may be antithetical to his original cultural value stance. Once the new conceptual perspective is accomplished, however, the individual may be able to redefine any act from deviant and antisocial to expedient and normatively correct. If killing in war ceases to be murder, then stealing from the quartermaster dump can easily be rationalized on the basis of group imperatives.⁵⁹

Put another way by Bourne, "while the military exists in theory to protect society, it has frequently become a law unto itself, acting with scorn for the values and cherished ideals of the system it was developed to serve."⁶⁰

In addition to behavioral norms, Bryant explained how the nature of military training seems to encourage illicit behavior by U.S. service members:

Military maneuvers are often referred to as war games, and practically all armies periodically have their senior-level officers engage in map exercises or map games. Much formal military training is structured in a game format; similarly, informal training often takes on the characteristics of a game. . . . Armed with the game orientation acquired from the emphasis on tactical proficiency in military training, some individuals make a game of many of their military activities, including looting enemy property, wheeling and dealing on the black market . . . or skillfully misappropriating military property for personal use. In all instances, it is essentially a game where the object is to violate the rules and not get caught.⁶¹

Inadequately Trained Civil Affairs Officers

As previously discussed, the prevailing economic conditions in an occupied nation greatly influence the degree to which black marketing occurs. For example, shortages of consumer goods greatly increase the odds that black marketing will occur. Additionally, according to Kyre in *Military Occupation and National Security*, "currency problems are endemic to nearly all occupations and civil affairs operations. In any combat or post-bellum situation, the local money tends to be unstable in value and highly

inflated. U.S. servicemen themselves contribute to the difficulties through their [black marketing] influence."⁶²

The work of civil affairs officers, who address the foregoing kinds of economic and fiscal problems in occupied nations, is not easy. As described by Coles in *Civil Affairs: Soldiers Become Governors*, the civil affairs mission in World War II "called for military, political, and economic activity on every level--from the job of rebuilding a village bakery to that of rooting out and replacing Fascist and Nazi ideology and institutions."⁶³ Concerning currency stabilization, Kyre notes that "balancing the American and indigenous finance systems side-by-side is exceedingly complex and poses obvious implications of national prestige as well as problems of sound fiscal management."⁶⁴

The skill with which civil affairs officers perform their duties can greatly influence how quickly a given nation or territory regains its law and order as well as its economic strength, thereby, reducing the probability that black marketing will occur. According to Kyre, however, civil affairs specialists have historically been poorly trained, which has hampered their ability to perform well: "It is common knowledge today that civil affairs specialists sent overseas frequently lacked sufficient information

concerning the political, economic, and social conditions of the regions to which they were assigned. Needless bureaucratic tangles and red tape caused by the Army and other governmental bodies created many problems."⁶⁵

Additionally, Coles explained that the type of skills and level of professional discretion involved in conducting civil affairs matters especially demand that civil affairs specialists be well-trained:

The greatest difficulty is that most of the requisite skills of civil affairs are not those which the soldier acquires in his ordinary training and experience. They are political, economic, and technical skills--the skills of civilian more than of military life. Moreover, even though the civil affairs officer does not make basic policy, these skills are not, in practice, merely executory. Because policy directives are often not entirely clear or leave considerable discretion . . . civil affairs requires more than mere ability to follow orders. It demands, at least at higher levels, an understanding and sensitivity with regard to political and economic interests and the ability to sense what policy makers would wish done about such interests under particular circumstances.⁶⁶

Civil affairs officers play a major role in minimizing the incidence of black marketing in occupied nations by helping them to rebuild their infrastructure and production facilities so that they can, once again, provide for the needs of their own people and reestablish a stable currency. Such officers must, however, receive adequate training to carry out their duties properly and effectively.

One final problem was that military commanders did not always utilize their civil affairs specialists. For example, according to Kyre,

General Patton never fathomed the modern function of civil affairs and military government. He appeared to consider it a useless innovation that merely cluttered up the battle scene. While he did recognize that the duties assigned them had to be performed by someone, he held little respect for the Army's occupation specialists. Instead of utilizing the trained officers who were assigned to his area, he preferred to use available combat officers. . . . The performance of the latter proved to be wholly unsatisfactory. Pressure was exerted by higher headquarters, and Patton was forced to permit the professional detachments to enter his area and take their assigned posts.⁶⁷

For civil affairs specialists to be effective, they must be allowed to perform their duties.

Leaders Ignore Illicit Behavior

According to Rundell in *Black Market Money*, during World War II, "commanders were far more concerned with tactical considerations than with the black market." In fact, "the regard some generals had for their men led them to be indulgent and consider any troop misbehavior in the black market or the boudoir merely a frolic--a manifestation of the vital spirit that led to victory on the firing line."⁶⁸

Black marketing was also ignored by commanders who were influenced by the receipt of favors or gifts. For example, testimony provided during the previously mentioned 1973 U.S. Senate hearings on corruption in the military club system in

South Vietnam documented "systematic and continuous thievery of the club systems from Germany, starting in the 24th Infantry Division in the early 1960s, and then moving to Fort Benning and finally to Vietnam,"⁶⁹ where the ring of corruption was finally exposed. It took a long time to prosecute the individuals involved in the corruption because attempts to investigate were continually thwarted by senior members in the chain of the command:

During a decade of uninterrupted corruption by this group, investigations were initiated by the Army's Criminal Investigations Division (CID) in Germany and then at Fort Benning. They were white-washed and covered up all along the line. Such action raises the larger issue of command influence . . . even generals were protected by this command influence, first at the division level and then at the Pentagon level . . . it is command influence which often protects the crooks and thieves in the club system.⁷⁰

The investigation further indicated that senior leaders in the chain of command were influenced to gain their cooperation in numerous ways. For example:

Command influence here took on many forms. In Germany, gifts and gratuities to the commanding general of the division were sufficient for him to ignore transparent improprieties in the club system. The same result was accomplished at the lower division level by plying visiting VIPs with free liquor and prostitutes--all paid for from the skimming of slot machines. In Vietnam, command influence within the 1st Infantry Division took another form. Widespread corruption was condoned in the Division because 5 percent of the illicit moneys was paid into the Division Scholarship Fund.⁷¹

The previously mentioned sergeant major who was a central figure in the corruption ring served as the command

sergeant major in both Germany and Vietnam. He also served as the sergeant major of the Army. In all of the foregoing highly placed positions, the sergeant major "enjoyed significant opportunities to influence the assignment of club system personnel and to impose restraint on the part of Army investigators who might have wished to look into the [illegal] activities."⁷²

The 1990 Senate investigation of black marketing in South Korea indicated that efforts to investigate black marketing were hindered by post exchange and commissary officials who felt that their stores and post recreational activities benefited monetarily from black marketing:

An Army and Air Force Exchange Service (AAFES) security official who had served recently in South Korea told the Subcommittee that the AAFES command actively resisted and discouraged black marketing enforcement efforts. This investigator stated that AAFES officials felt black marketing enforcement had a negative effect on sales, with the result that there would be a negative effect on profits, and part of those profits are used for the morale, welfare and recreation fund. He said there was constant pressure from his superiors not to press black market investigations for fear that they would cut into those profits.⁷³

Commissary and exchange officials had no direct self-interest in limiting black marketing activities.

The extremely powerful, corrupt and controlling nature of command influence was especially well conveyed in Joseph Heller's masterpiece novel on military absurdities, *Catch-22*:

'Milo, how do you do it?' Yossarian inquired with laughing amazement and admiration. 'You fill out a flight plan for one place and then you go to another. Don't the people in the control towers ever raise hell?'

'They all belong to the syndicate,' Milo said. 'And they know that what's good for the syndicate is good for the country, because that's what makes Sammy run. The men in the control towers have a share, too, and that's why they always have to do whatever they can to help the syndicate.'⁷⁴

As the literature indicates, the degree to which command influence can encourage and protect black market activity should not be underestimated.

Inadequacy of Controls

According to the 1990 Senate investigation of black marketing in South Korea, during the 1980s in South Korea, an elaborate system of controls were in place in U.S. Army exchanges to deter black marketing. For example, there were monthly purchasing limits on how much an individual or family could spend and in the number of specified items an individual or family could purchase from the retail outlets. There were also shelf limits on high demand products that restricted the quantities of such products that could be purchased on a single day. To track the foregoing limits for each family and individual, exchange cashiers were required to keep a record of each purchase that was above five dollars. At the checkout counter, cashiers checked

each purchaser's ration control plate, which was imprinted with the purchaser's name and shopping privileges.⁷⁵

As pointed out in the 1990 Senate investigation of black marketing in South Korea, however, the aforementioned controls were frequently circumvented for black market purposes. For example, racetracking was when a purchaser made multiple daily purchases from the same or different retail facilities, always keeping the total dollar value of each purchase under five dollars. This avoided the purchase from being recorded in the ration control system. In this way, purchasers were able to exceed monthly purchase limits as well as daily shelf limits for high demand products.⁷⁶

As another example, cashiers and clerks sometimes worked as accomplices with shoppers and either recorded a purchase amount less than the actual total or recorded the amount properly, but hid the sales card and destroyed it later. Additionally, fraudulent or altered ration control plates were sometimes used to make purchases.⁷⁷

Similarly, Rundell described how in Europe during World War II, enterprising soldiers continually found ways to circumvent the U.S. Army's controls on currency conversion. As explained previously, soldiers could exchange into dollars only that amount of foreign currency equal to their pay and allowances to prevent overdrafts on the U.S. Treasury and deter the conversion of black market profits

into dollars. Soldiers, however, found quite ingenious ways of getting around this restriction:

Without a doubt one of the cleverest methods of removing profits from Berlin was the guise of cabling flowers to the United States. . . . Soldiers would cable large sums to hometown florists ostensibly for flowers to be delivered to their families. The florists, rather than delivering flowers, would take money instead. Naturally, for the use of their services, the florists withheld a certain percentage from each transaction. Much black market money cleared Germany through this channel before it was discovered and banned in November, 1945.⁷⁸

Another method Rundell said was used by military members to circumvent the conversion limits was to invest black market profits in valuables, such as art objects or jewels, and then mail them to the States. Still another tactic was to find other soldiers who had not yet reached their conversion limits and pay them commissions to convert illicit funds into dollars.⁷⁹

According to Petrov, the U.S. Army used Currency Exchange Control Books to ensure that the total amount of dollars remitted home by soldiers did not exceed the amount of their pay and allowances. Soldiers, however, found ways to circumvent these control books, too: "The GIs regarded control books as 'interference with their personal affairs' and did not hesitate to alter figures in them or declare them lost and apply for duplicates. In addition, some enterprising GIs started counterfeiting the control books and selling them to anyone who was in distress."⁸⁰

Additionally, as Sean Paige noted in an article he wrote for the magazine *Missing in Action*, the military has been lax in the way it manages its material and property, thereby, facilitating and increasing the incidence of larceny of government items by military personnel for resale on the black market. For example,

A follow-up [audit] by the General Accounting Office found that discrepancies still exist in the number of missiles and that some facilities are not fully complying with Department of Defense physical security requirements . . . some weapons continue to be vulnerable to insider theft as quantities of various category II items, including grenades, C-4 plastic explosives and TNT, have been stolen by uniformed or Department of Defense civilians.⁸¹

Corrupt Nature of War

Viewed within a larger context, black marketing by U.S. service members might be more appropriately regarded as just one specific indicator of a more general financial corruptness in the nature and origins of war. In fact, the literature is replete with many references to the financial depravity of war. For example, Smedley D. Butler, a highly decorated major general in the U.S. Marines, asserted the following about war in his 1935 book *War Is a Racket*:

War is a racket. It always has been It is the only one in which the profits are reckoned in dollars and the losses in lives It is conducted for the benefit of the very few, at the expense of the very many. Out of war a few people make huge fortunes. In the World War, a mere handful garnered the profits of the conflict. At least 21,000 new millionaires and billionaires were made in the United States during the

World War. . . . How many of these war millionaires shouldered a rifle? How many of them knew what it meant to go hungry in a rat-infested dugout? . . . How many of them were wounded or killed in battle?⁸²

He further lamented, "I spent most of my time being a high-class muscle man for Big Business, for Wall Street, and for the bankers. In short, I was a racketeer for capitalism."⁸³ Similarly, in his 1918 book *War! Behind the Smoke Screen*, William C. Allen quotes the editor of a then-popular journal as follows: "So long as civilization is based on material wealth, war is the inevitable outcome."⁸⁴ Allen himself made the following observation:

During my trips around the world, I have not come across a single soldier who had been a private in the Great War, who had been in the filth and savagery of the trenches or at the front, who was not ready to say that he had been misled as to the moral aims which had been so freely expounded to him in connection with the conflict. All these young men declared as their belief that they had been the victims of commercial exploitation and competition fostered and fought for by their respective governments.⁸⁵

William Bradford Huie, who wrote *The Execution of Private Slovik*, a biography on the only American soldier since 1864 executed for desertion, said that he "understood the belly-tightening cynicism of a situation in which a few citizens are required to risk everything while practically everybody else gets promoted, 'enjoys the war,' and makes himself richer and more comfortable."⁸⁶

The main character, Yossarian, in Joseph Heller's novel *Catch-22* said skeptically about the war in which he was involved, "When I look up, I see people cashing in. I don't see heaven or saints or angels. I see people cashing in on every decent impulse and every human tragedy."⁸⁷ In *The Khaki Mafia*, a fact-based novel written by Robin Moore and June Collins about the previously mentioned ring of corruption in the military club system in South Vietnam, the following discussion took place:

Marie gave Jody a sharp look. 'Why so gloomy?'

'I don't know. It's just that I see both sides. You only see the Saigon side. People getting rich, Americans and Vietnamese alike, everyone having a ball. But don't forget, I spend most of my time out in the boonies. No one is getting rich out there, but a damned lot of them are getting killed or maimed. What for? To keep the war going so the carpetbaggers can keep making money?'

Marie looked at Jody strangely. 'Well, aren't we all here for money?'. . .

'I only pray these Paris peace talks they're holding will be successful and all the troops can go home.'

Marie stared at Jody in disbelief. 'You are crazy. You're the first person I ever heard say they wanted the talks to succeed. We don't want our beautiful bubble to burst.'⁸⁸

The aforementioned comments may help one to understand how U.S. service members may feel entitled to and justified in making profits from war through such illicit activities as black marketing. After all, they may feel like getting

what they perceive as their "fair share" of the monetary rewards "like everyone else."

Interestingly, as noted by Horst Mendershausen in *The Economics of War*, there is some economic basis to the idea that war generates profits, because governments must buy items necessary to conduct war: "Price is no deterrent from purchases of airplanes, ships, shells, and food for the fighting forces. There are no automatic forces that would keep producers from raising the prices of such materials far above the cost of production, and there are no safeguards limiting the rise of prices of commodities of military significance."⁸⁹ For example, Mendershausen explains that during war,

Conditions of perfect competition do not prevail; on the contrary, the monopolistic elements in the national economy tend to be strengthened by the extreme urgency and the extraordinary volume of war demand. In peacetime, a munitions maker may find himself in competition with others; the government is in a position to sift out disadvantageous bids on orders of military equipment. In wartime, the output of every munitions maker is urgently needed. Even the least efficient of them becomes a monopolist who can dictate his terms to the government.⁹⁰

To avoid a precipitous upward spiral in the prices of essential war as well as consumer goods, governments usually impose price controls. Such controls, along with heavy government taxation, usually serve to limit war profiteering

on the part of manufacturers and store merchants, who have no self-interest in controlling the prices of their goods.

As a final note, even the U.S. government itself appears to have a secret aura surrounding the way it manages its monies, as Tim Weiner reveals in his book *Blank Check*:

The Pentagon's Black Budget:

The black budget is the President's secret treasury. It funds every program the President, the Secretary of Defense and the Director of Central Intelligence want to keep hidden from public view. . . . This money is kept off the books, erased from the public ledger. The secret weapons, secret wars and secret policies it pays for are shielded from public debate. The black budget began with the Manhattan Project, the crash program to build the atomic bomb during World War II. . . . By 1989, at the end of the Reagan administration, [the black budget] had grown to \$36 billion a year . . . the Pentagon's budget is not an open book . . . hundreds of programs [are] camouflaged under code names, their costs deleted, their goals disguised. Code words and blank spaces stood where facts and figures should have been. . . . I could understand classifying the details of fancy technologies or state-of-the-art designs—but not the cost of weaponry. I thought spending money for military hardware in secret went against the grain of American democracy.⁹¹

Overall, the literature provides many historical examples of *what* types of goods were black marketed by U.S. service members, from *where* some of the goods were acquired, and reasons *why* members engaged in black marketing. There is, however, very little detailed information or systematic study concerning the actual mechanics of *how* military members actually acquired and sold the goods. For example, the literature mentions that government goods were stolen

and sold on the black market, but does not provide details of how the goods were actually removed from government facilities. Do service members usually commit such larcenies alone or with accomplices? To whom are the goods sold? How are the crimes discovered? This thesis seeks to answer such questions by studying in detail the mechanics of black marketing by U.S. service members. Hopefully, the results obtained will suggest ways to curtail or eliminate such illegal operations by U.S. service members to reduce their negative impact on the U.S. national security strategy.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter will explain the research methodology used to analyze the legal cases of U.S. service members prosecuted for black marketing.

Data Source

The LEXIS legal database was queried to obtain a list of all legal cases involving black marketing by U.S. service members. LEXIS conducted the search by identifying all cases which contained the key words "black market" in any grammatical form (i.e., verb, noun or adjective) within their text. Note that the database contained only those court-martial cases that were referred to and reviewed by military appellate courts during the time period 1951 through 1997. Consequently, the cases obtained necessarily fell within these parameters. Through this procedure, a total of 143 cases were identified.

Once identified, the cases needed to be obtained in a full text form, either electronically or manually. Due to the cost involved in downloading the cases electronically from the LEXIS database, an attempt was made to obtain as many of the cases as possible manually from two different sets of case books, each covering a different time period: *Court-Martial Reports* (CMR) consists of 50 volumes covering

the period 1951-1975 and *Military Justice Reporter* (MJ) consists of 46 volumes covering the period 1975-1997. Of the 143 cases, 132 were retrieved manually from the case book sets; 11 had to be downloaded from the LEXIS database.

There was one important difference between the two case book sets having a direct bearing on this study. The older set of case books, *Court-Martial Reports*, had indexes to the cases contained in each book of the set. As a result, in addition to querying the LEXIS database for cases, the indexes were also manually checked for cases involving black marketing which may have been missed by LEXIS due to a certain expected error rate inherent in any such database. Two additional cases were identified in this way and retrieved from the case books, resulting in a total of 145 cases for analysis.

Unfortunately, as discussed in the next section, only 101 of the 145 cases proved useful to this thesis. Additionally, only 85 of the 101 useful cases involved different black market crime incidents. Table 1 shows the breakdown of these 85 cases by data source (i.e., case book volume or LEXIS) and year (i.e., year in which case was decided by appellate court). Note that, as a group, the 85 cases seem fairly representative of the 1951-1997 time period, since all decades and most years are represented.

TABLE 1

BREAKDOWN OF 85 CASES BY DATA SOURCE AND YEAR

Case #	Data Source	Year	Case #	Data Source	Year
1.	3 CMR 412	1951	44.	31 CMR 340	1961
2.	2 CMR 113	1952	45.	31 CMR 666	1961
3.	3 CMR 333	1952	46.	32 CMR 18	1962
4.	4 CMR 306	1952	47.	32 CMR 134	1962
5.	4 CMR 369	1952	48.	32 CMR 266	1962
6.	5 CMR 102	1952	49.	32 CMR 837	1962
7.	5 CMR 447	1952	50.	33 CMR 326	1963
8.	7 CMR 618	1952	51.	33 CMR 932	1963
9.	9 CMR 355	1952	52.	37 CMR 652	1966
10.	10 CMR 436	1953	53.	37 CMR 386	1967
11.	10 CMR 612	1953	54.	37 CMR 390	1967
12.	11 CMR 73	1953	55.	38 CMR 767	1967
13.	11 CMR 438	1953	56.	38 CMR 364	1968
14.	13 CMR 179	1953	57.	40 CMR 101	1969
15.	14 CMR 287	1953	58.	40 CMR 216	1969
16.	16 CMR 281	1954	59.	41 CMR 867	1969
17.	16 CMR 690	1954	60.	41 CMR 345	1970
18.	16 CMR 1799	1954	61.	43 CMR 817	1970
19.	17 CMR 542	1954	62.	45 CMR 134	1972
20.	18 CMR 771	1955	63.	1 MJ 563	1975
21.	18 CMR 858	1955	64.	1 MJ 1039	1976
22.	20 CMR 301	1955	65.	3 MJ 973	1977
23.	21 CMR 141	1956	66.	5 MJ 740	1978
24.	21 CMR 158	1956	67.	12 MJ 890	1982
25.	23 CMR 441	1957	68.	19 MJ 196	1985
26.	24 CMR 55	1957	69.	20 MJ 998	1985
27.	24 CMR 197	1957	70.	1986 CMR LEXIS 2116	1986
28.	24 CMR 372	1957	71.	1986 CMR LEXIS 2522	1986
29.	24 CMR 738	1957	72.	25 MJ 457	1988
30.	25 CMR 272	1958	73.	26 MJ 963	1988
31.	26 CMR 200	1958	74.	26 MJ 1013	1988
32.	26 CMR 204	1958	75.	27 MJ 832	1988
33.	26 CMR 219	1958	76.	1988 CMR LEXIS 543	1988
34.	26 CMR 223	1958	77.	29 MJ 78	1989
35.	26 CMR 376	1958	78.	29 MJ 112	1989
36.	26 CMR 660	1958	79.	31 MJ 667	1990
37.	26 CMR 673	1958	80.	1990 CMR LEXIS 689	1990
38.	27 CMR 221	1959	81.	32 MJ 393	1991
39.	28 CMR 876	1959	82.	35 MJ 787	1992
40.	29 CMR 234	1960	83.	1993 CMR LEXIS 6	1993
41.	29 CMR 829	1960	84.	44 MJ 841	1996
42.	38 CMR 406	1960	85.	1997 CCA LEXIS 109	1997
43.	30 CMR 111	1961			

Notes

"Data source" format: (1) for case books - volume number, case book set ("CMR" for *Court-Martial Reports* or "MJ" for *Military Justice Reporter*), and page number; (2) for LEXIS - year, type of court ("CMR" for Court of Military Review or "CCA" for Court of Criminal Appeals), and page number. "Year" is the year in which the case was decided by a military appellate court.

Determination of Usable Cases

As previously mentioned, many of the 145 cases extracted for this study proved unusable and were discarded. Specifically, a total of 44 of the 145 cases could not be used due to one of the following six reasons, from most to least frequent, with the number of affected cases noted in parentheses: the case did not involve black marketing (27); the alleged charges against the accused were dismissed (7); the case did not provide enough factual details (7); the accused was a civilian (2); or the case was a duplicate (1). Each of these reasons will be discussed in greater detail in the following paragraphs.

Twenty-seven cases could not be used, because they did not involve black marketing. The following is a breakdown of the types of crime involved in the 27 cases, from most to least frequent, with the number of affected cases noted in parentheses: larceny (10); possession and/or selling of drugs (8); murder (2); illegal property transfers with no profit motive (i.e., as defined in this thesis, black marketing involves a profit motive) (2); child abuse (1); receiving/concealing stolen money (1); assault (1); improper relationships with subordinates (1); and drunk and disorderly conduct (1).

The foregoing cases were mistakenly selected by the LEXIS database, because they contained the words "black

market" somewhere within their text (i.e., as previously mentioned, the LEXIS database search was conducted by identifying all cases with the key words "black market" within their text). How could the key words "black market" appear within the text of a case that did not involve black marketing? Often, the judges who reviewed a given case referred to and discussed other cases to illustrate key legal points they felt had a bearing on the given case under review. If any of these other cases involved black marketing, then the judges would likely mention the key words "black market" in passing while discussing them.

Another seven cases were discarded because they lacked sufficient detail to be effectively used in this thesis. For example, some of the seven cases described the crimes involved as "conspiracy to black market," "currency transaction offenses," or "two specifications of black marketing." Such verbiage was too general and nonspecific to permit a determination of the actual nature of the alleged crimes or an in-depth analysis of the criminal operations.

Still another group of seven cases could not be used, because the charges brought against the accused were dismissed by the military appellate courts due to legal insufficiency of the evidence to sustain the guilty findings of the lower courts. Two cases involving Department of

Defense civilians under military jurisdiction were also discarded, because this study focused on black marketing cases involving only U.S. service members. One final case was discarded, because it was a duplicate (i.e., it was mistakenly selected twice by the LEXIS database).

After discarding the foregoing 44 cases, because they did not involve black marketing, there were only 101 cases involving black market operations which proved useful to this thesis.

Further study of the cases indicated that 16 of the 101 remaining cases duplicated the factual details contained in other cases because the same black marketing incident was involved. Eight of the 16 cases involved a given accused whose case was reviewed twice by adjudicators due to legal issues. The other eight cases involved accomplices who were separately prosecuted for their participation in black marketing incidents already addressed and duplicated in other appealed cases. Since this study viewed a black marketing operation with accomplices as just one single operation, all cases pertaining to the same black marketing incident were consolidated and analyzed as just one, integrated operation.

Note, however, that regardless of why any given case duplicated the factual details contained in another, all cases pertaining to the same black marketing incident were

fully analyzed to obtain as many factual details of the particular incident as possible. This took into account the possibility that different factual details might be presented in different cases pertaining to the same incident.

As a result of the foregoing 16 cases, which duplicated factual details contained in other appealed cases, there were actually only 85 cases involving different black market crime incidents available for analysis in this thesis.

Data Elements

As previously noted, the purpose of this study was to determine empirically how U.S. service members conducted their black market operations. Consequently, the approach was to analyze all the information actually contained in the cases that pertained to the mechanics of black marketing. Such an approach resulted in the following ten major data elements: (1) type of good involved; (2) source of good; (3) how the good was obtained; (4) accomplices in the crime; (5) to whom the good was sold; (6) how the crime was detected; (7) rank of member; (8) service branch of member; (9) country in which crime occurred; and (10) year in which crime occurred.

The data element "year in which crime occurred" was stated in only a small number of cases examined. As shown in Table 1, however, the year in which a case was decided by

a military appellate court was available for every case. Consequently, for purposes of this thesis, the year in which a case was decided was also considered to be the year in which the crime was committed. Analysis of those cases for which both dates were available indicated that such a substitution seemed reasonably accurate: the variance was usually no more than one year and never more than two years. In this way, the mechanics of black marketing by U.S. service members could be studied over time.

Data Collection

All of the foregoing data elements were identified for each case and recorded on data sheets for later analysis.

Data Analysis

The recorded data was analyzed to look for fact patterns, or similarities, in how the various black market operations were conducted for each particular type of operation (e.g., Were there usually accomplices in the theft of tax-free exchange goods?) as well as across different types of operations (e.g., Were most types of operations detected by police in one particular way?). Frequencies of various types of mechanics were also noted (e.g., What were the most and least common ways in which members obtained government property?) Finally, a determination was made as to the existence of any relationships among the various data

elements themselves (e.g., Were certain types of operations committed in only certain countries or years?).

CHAPTER 4

ANALYSIS

This chapter presents the results obtained from analyzing 85 court-martial cases involving different black market operations conducted by U.S. service members.

The results indicated that black market operations conducted by U.S. service members involved three different types of goods: tax-free goods, government property, and currency. Accordingly, U.S. service members engaged in the following three different types of black market operations, depending on which type of good was involved, listed from most to least frequent, with the number and percentage of cases in each category out of a total 85 cases noted in parentheses: illegal transfers of tax-free goods (51) (60%), illegal transfers of government property (23) (27%), and illegal currency transactions (11) (13%).

Each of these three types of black market operations will be discussed separately in the following sections. Each analysis is organized around the ten major data elements identified in the previous chapter. The final section will compare the three types of operations.

Illegal Transfers of Tax-Free Goods

This section discusses the results obtained from analyzing the 51 black marketing cases involving the illegal transfer of tax-free goods by U.S. service members. For

purposes of this thesis, tax-free goods are defined as goods sold tax-free at government retail outlets (i.e., commissaries or exchanges) or imported without paying custom or import fees.

Types of Tax-Free Goods

Only 37 of the 51 cases involving tax-free goods detailed the types of goods which were black marketed. Military members black marketed the following 18 types of tax-free goods, listed from most to least frequent, with the number and percentage of cases falling within each category out of a total 56 incidents of black marketing (many of the 37 cases listed more than one type of black market item) indicated in parentheses: cigarettes (18) (32%), electronic items (8) (14%), liquor (7) (13%), watches (5) (9%), coffee (2) (3%), cameras (2) (3%), refrigerators (2) (3%), soap (2) (3%), furniture (1) (2%), telephones (1) (2%), clocks (1) (2%), cigars (1) (2%), car (1) (2%), gasoline (1) (2%), air conditioners (1) (2%), golf clubs (1) (2%), commissary meat (1) (2%), and black velvet (1) (2%).

The type of goods most frequently black marketed by military members, however, differed depending on the time period. For example, in the 1950s and 1960s, cigarettes were the most frequently black marketed item, comprising 14 of the 28 (50%) instances of black marketing during the period; watches and liquor were a distant second, each

comprising four of the 28 (14%) incidents of black marketing during the period. In fact, 14 of the 18 (78%) black market cases involving cigarettes occurred in the 1950s and 1960s, indicating that its popularity as a black market item has greatly waned over the years. Similarly, four of the five (80%) cases involving watches occurred in the 1950s and 1960s. In the 1980s and 1990s, electronic products were the most frequently black marketed goods, comprising six of the 18 (33%) incidents of black marketing during the period; cigarettes and liquor tied for second place, comprising three of the 18 (17%) black market incidents during the period. Note that six of the eight (75%) black market cases involving electronic products occurred in the 1980s and 1990s, indicating the greater popularity of such products in more recent years. Liquor was steadily black marketed throughout the 1951-1997 time period. Of the seven black market cases involving liquor, four occurred in the 1950s and 1960s, and three occurred in the 1980s and 1990s.

Several items appear to have been particularly popular black market items in certain countries during certain time periods. For example, four of the 17 (24%) cases involving cigarettes and three of the five (60%) cases involving watches occurred in Japan during the 1950s. More recently, four of the eight (50%) cases involving electronic goods occurred in Korea during the 1980s. Other products seem to

have been steadily black marketed in certain countries over many decades. For example, three of the seven (43%) cases involving liquor occurred in Korea during the years 1952, 1982, and 1988. Similarly, three of the 18 (17%) cases involving cigarettes occurred in Germany during the years 1953, 1957, and 1997.

The remaining items appear to have been black marketed in a number of countries. For example, of the 18 cases involving cigarettes, other than the four cases mentioned previously which occurred in Japan during the 1950s and the three cases which occurred in Germany, the remaining 11 cases occurred in other countries as follows: Spain (3), France (2), England (2), Philippines (2), Italy (1), and one case did not state where it occurred. Similarly, of the seven cases involving liquor, other than the three cases mentioned previously which occurred in Korea, the remaining four cases occurred in the following four different countries: Philippines, France, Spain, and Germany.

Acquisition of Tax-Free Goods

Military members acquired tax-free goods in one of the following six different ways, listed from most to least frequent, with the number and percentage of cases in each category out of a total 51 cases noted in parentheses: legal purchase (21) (41%), fraudulent purchase (11) (21%), theft (10) (20%), receipt via intermediary (5) (10%), importation

(3) (6%), and bribery (1) (2%). All the above methods, except legal purchase, enabled members to acquire tax-free goods in quantities which exceeded their individually assigned ration control limits. Each of these methods of acquiring tax-free goods will be described in the following paragraphs.

Legal Purchase

Legal purchase refers to those situations in which service members bought tax-free goods in person through officially sanctioned channels from a commissary or exchange. The member used his own legally issued identification cards, ration cards, and purchase authorization documents, thereby, staying within assigned ration control limits.

Fraudulent Purchase

Fraudulent purchase refers to those situations in which service members used forged identification cards, ration cards or documents to purchase the goods from a commissary or exchange. As indicated by eight of the 11 (73%) cases, by far the most common method of fraudulently buying goods was to steal, alter and then use other members' ration control cards to buy goods at government retail outlets, thereby, exceeding individually assigned ration control limits. Members altered the cards by replacing the name imprinted on the card with their own and then applying their own signatures. Another method was to impersonate the

person on the card by using stolen or falsified identification cards and forging any required signatures. Two of the 11 (18%) cases involved the use of false letters of authorization, which permitted the members to purchase goods in quantities that exceeded their assigned ration control limits. One of the 11 (9%) cases involved the theft and alteration of ration control books, which allowed the member to purchase goods in quantities that exceeded his assigned ration control limits.

Theft

Theft involved the larceny of exchange goods. Nine of the ten cases in this category provided detailed information on how the goods were obtained. As evidenced by six of the nine (67%) cases, such thefts were mostly "inside" jobs, which meant that the accused members had special access to the stolen goods not generally available to others due to their job positions or those of their accomplices. For example, in the first case, the accused member, who was manager of an exchange branch, stole cases of cigarettes directly from the back room of the exchange. He told one of his subordinates to lie to customers that the stolen brands were unavailable for purchase. Similarly, in the second case, the accused member, who was a commissary employee, stole coffee and soap from the back loading area of the commissary. In the third case, the member obtained stolen

commissary meat from the commissary manager. In the fourth case, the member stole cases of cigarettes while he was on duty at the warehouse where they were stored. Similarly, in the fifth case, the member stole cases of soap while he was on duty at an exchange storeroom where they were stored. To escape detection, he made several trips carrying soap cakes concealed in his trouser legs, made up sales slips recording the transaction as a sale to one of his organization's companies, adjusted bin slips for quantities sold, and replaced the retail price of any soap removed. In the sixth case, the member bribed security guards to "cover" for his stealing of exchange goods.

Two of the nine (22%) theft cases were "outside" jobs that involved the acquisition of tax-free goods by burglarizing the exchange after it closed. In one of the cases, the member gained access to the exchange after it closed via a ladder used by maintenance personnel. In the other case, the member conspired with four others to steal articles from the exchange after it closed. One member was a lookout, one drove, one hid in the exchange before closing, and two were on standby. After the exchange closed, the member hidden inside let in the standby members by pushing open the back door. They filled three suitcases with cameras and watches, then fled.

In the last of the nine cases involving theft, the member was a boatswain's mate on a Navy supply ship. He stole 200 cartons of cigarettes while they were on deck awaiting transfer and hid them in an area of the ship over which he was in charge.

Receipt Via Intermediary

Receipt of tax-free goods via an intermediary describes those situations in which a member obtained tax-free goods from another member for subsequent sale on the black market. In four of the five (80%) cases, the intermediary legally purchased the tax-free goods from the exchange; in one of the five (20%) cases, the intermediary stole the tax-free goods from the exchange. Once the intermediary acquired the goods, he then sold them to another member for subsequent sale on the black market. In this way, members could acquire goods to black market without exceeding their individually assigned ration control limits, thereby, increasing their chances of escaping detection.

Importation

Importation refers to those situations in which a member obtained tax-free goods outside the host country for subsequent black marketing within the host country. One case involved a member stationed in Korea who asked one of his subordinates to buy 40 yards of velvet for him in Japan, where the subordinate was going on leave. The same member

also arranged for whiskey to be purchased from a military officers' club in Japan and returned on the weekly dry cleaning flights. Another case involved importing tax-free goods by purchasing them through military mail order services. The third case provided no details on how the illegal import operations were conducted.

Bribery

Bribery refers to those situations in which members paid money to exchange employees to conceal members' purchases of goods in quantities that exceeded their individually assigned ration control limits. The one case in this category involved a member who bribed an exchange employee to allow him to purchase as many as 30 cartons of cigarettes per ration stamp instead of the maximum authorized one carton per stamp.

Note that a given type of tax-free good was acquired by service members in three or four different ways, with no one way predominating over the others to any great extent. For example, cigarettes were acquired in the following various ways, from most to least frequent, with the number and percentage of a total 18 cases in parentheses (total percentage exceeds 100 due to rounding): legal purchase (7) (39%), fraudulent purchase (5) (28%), acquired via an intermediary (3) (17%), and theft (3) (17%). Similarly, liquor was acquired in the following ways, from most to

least frequent, with the number and percentage of a total seven cases in parentheses: fraudulent purchase (3) (43%), legal purchase (2) (29%), receipt via intermediary purchaser (1) (14%), and importation (1) (14%). One exception was electronic goods. In seven of the eight cases (88%) involving electronic goods, acquisition was by legal purchase; one case involved fraudulent purchase.

Sources of Tax-Free Goods

In 43 of the 51 (84%) cases involving tax-free goods, military exchange shelves were the source of such goods. This includes all cases involving legal purchase, fraudulent purchase, receipt via an intermediary and bribery, as well as four of the nine cases involving theft (the tenth case provided no detailed information). In the five remaining theft cases, goods were obtained from the following sources: back room of commissary or exchange (3), exchange warehouse, and ship's deck. In two of the three importation cases (the third case provided no details), goods were obtained from the following sources: an overseas officers' club and military mail order services.

Accomplices in Black Marketing Tax-Free Goods

In 32 of 49 (65%) cases involving tax-free goods (two cases provided no details), members conducted their black market operations without accomplices. The method used to acquire the tax-free goods, however, seemed to strongly

correlate with whether or not accomplices were involved. For example, in all cases involving importation, receipt via an intermediary or bribery, members worked with one or more accomplices. This would be expected, because such methods of obtaining goods inherently require the involvement of others. In one of the two importation cases (the third case provided no details), one accomplice was a subordinate who was asked by his boss to purchase velvet while on leave in Japan. In the other case, the accomplices were Air Force flight personnel who helped the member import goods into the host country on military aircraft. In the five receipt via intermediary cases, all accomplices were fellow service members who obtained goods for the accused member. In the one bribery case, the accomplice was an exchange employee who was bribed by the member to conceal purchases which exceeded authorized ration limits.

Six of the nine (67%) cases (the tenth case provided no details) which involved the theft of tax-free goods also involved the use of accomplices. In the first case, the accomplice was a commissary manager who gave stolen meat to the member. In the second case, the accomplices were security guards who were bribed by the member to "look the other way" as the member stole exchange items. In the third case, the accomplices were foreign national subordinates of the member, who was a commissary supervisor. Several of the

subordinates helped load the goods into the member's car. Another subordinate helped the member find a black market buyer for the goods. In the fourth case, the member conspired with another service member to steal cigarettes from a warehouse where they were both standing duty. In the foregoing four cases, the accomplices, by virtue of their positions, facilitated acquisition of the tax-free goods. In the fifth case, the member conspired with three other service members to burglarize an exchange at night after it closed. In the sixth case, the member had a fellow shipmate help him remove cartons of cigarettes from ship's deck.

Only three of the 21 (14%) cases involving the legal purchase of tax-free goods involved accomplices. In the first case, a member conspired with three other members to remove cartons of cigarettes from a ship in quantities which exceeded those authorized. In the second case, the member's wife introduced him to a foreign national black marketeer. In the third case, the member conspired with two fellow service members to sell cigarettes to a foreign national black marketeer.

To summarize, in ten of the 17 (59%) cases involving accomplices, members conspired with other fellow service members to conduct their black market operations. Four of the 16 (25%) cases involved various types of exchange or commissary employees (manager, cashier, subordinate,

security guard). The remaining three cases involved the following various types of accomplices: wife, subordinate, and Air Force flight personnel.

Purchasers of Tax-Free Goods

In all 51 cases involving the black marketing of tax-free goods, the goods were sold to foreign nationals of the country where the service member conducted the black market operations. Additionally, this was always the country in which the member was stationed or, in the case of some Navy members, where their ship was in port.

Detection of Crimes

Only 22 of the total 51 (43%) cases which involved the black marketing of tax-free goods provided information on how the crimes were detected. The following is a breakdown of how the crimes were detected in the 22 cases, from most to least frequent, with the number and percentage of relevant cases in parentheses: reports by informants (7) (32%); review of exchange sales documents by Ration Control Officers (5) (23%); identification checks by exchange personnel (2) (9%); search by U.S. base gate guards (2) (9%); detection by U.S. military enforcement officials (2) (9%); detection by foreign national police (2) (9%); and discovery of inventory shortage (2) (9%). These crimes will be discussed in greater detail in the following paragraphs to

more clearly illustrate how U.S. service members conducted their black market operations.

Seven of the 22 cases (32%) were reported by informants who observed or knew about the crime. In the first case, which occurred in Italy in 1952, a Navy sailor on watch saw the accused member on the ship's fantail standing beside a laundry bag with a heaving line attached to it. When confronted by the sailor, the member admitted that he planned to black market 26 cartons of cigarettes stuffed in the laundry bag. In the second case, which occurred in Korea in 1953, an informant told Criminal Investigative Division (CID) agents that the accused member had a diary in his desk which disclosed facts and names of witnesses pertaining to the member's illegal import transactions. The diary was retrieved, resulting in the preferral of charges against the member. In the third case, which occurred in Japan in 1955, a bank guard across the street observed the accused along with four others burglarize an exchange at night after closing. In the fourth case, which occurred in England in 1958, a local merchant brought a watch to Britain's Commission of Customs and Excises to pay duty on it, because it was uncustomed. Further investigation revealed that the merchant had bought the watch from another local merchant, who had, in turn, bought it on the black market from a service member. The serial number on the

watch linked it to the military exchange. In the fifth case, which occurred in France in 1957, the military member voluntarily admitted during his court-martial trial for charges of desertion that his major source of income while in a deserter status was black marketing cigarettes he bought from military exchanges. In the sixth case, which occurred in the Philippines in 1985, the accused attempted to bribe an exchange security guard to abet in the larceny of exchange items. The guard pretended to play along, but reported the incident to the Naval Investigative Service (NIS). In the seventh case, which occurred in Germany in 1997, several area exchange gas station employees shared with one another their observations that the accused had purchased large quantities of gasoline coupons from each of their stations in a short time period. They subsequently reported this information to the Office of Special Investigations (OSI). In each of the foregoing cases, informants were crucial to the apprehension of the accused members.

Five of the 22 (23%) cases were detected by Ration Control Officers, who routinely checked exchange sales documents and summary printouts for unauthorized purchases. In three cases, which occurred in Korea in the 1980s, members were detected when exchange records indicated they had purchased a high quantity of certain controlled or high

value items. The members could not subsequently produce information or documentation relating to the disposition of the items in question as required by regulation. In the fourth case, which occurred in Japan in 1954, officials examined exchange sales slips which were routinely kept for each purchase over five dollars. They determined that the member purchased 16 watches and 5 radios by signing his own name on 16 slips and forging another name on four more slips. In the fifth case, which also occurred in Japan in the 1950s, officials routinely checked records of purchases of controlled items kept by the local OSI. They discovered an excessive number of golf clubs purchased by three different members, all of whom had their wallets with their identification cards inside stolen. Base exchange employees, who were alerted to the situation, caught the member using one of the stolen cards. The member then confessed he had used the stolen cards to buy and sell the golf clubs on the black market.

As would be expected, all the foregoing cases, which were detected by reviewing exchange sales records, involved the legitimate or fraudulent purchase of tax-free goods. This is because such methods of obtaining goods produce a document audit trail that can later be reviewed. Note that reviewing exchange sales documents and acting on information from informants seem to have been the most effective

detection methods in the long term, each spanning the four decade period from the 1950s through the 1990s.

In two of the 22 (9%) cases, both of which occurred in Korea during the 1980s, service members' wrongdoing was caught by exchange personnel while conducting identification checks. In one case, security guards were suspicious of a military member who pretended to be a Philippine major. The member had identification documents that were forged in his possession, but confessed his crime when confronted with his true identify. In the other case, a Ration Control Monitor at the exchange asked the military member for additional identification after examining the false cards presented by the member. The member fled, but was later apprehended by CID agents, who were able to determine the accused's real identity from the false identification card.

In another two of the 22 (9%) cases, the accused members' criminal situations were detected by base gate guards. In one of the cases, which occurred in Korea in 1952, a gate guard notified OSI when he stopped a service member in a government jeep loaded with eight cases of whiskey. In the other case, a gate guard stopped a member who was attempting to exit the base with concealed items. The member could not produce lawful property passes or merchandise control documents for the items.

In two of 22 (9%) cases, members' criminal activities were detected by military law enforcement personnel. In one case, the member was caught by CID agents who set up surveillance outside the camp gate. The agents stopped the member, searched his van, and found 10 boxes of stolen commissary meat. In the other case, base security police came to investigate a home burglary reported by the member. The police soon realized that the member had pretended the burglary, because the visible footprint on the door was too high to have been made by a local Filipino national, as claimed by the member. Also, on the day of the burglary, two foreign national household employees were told not to report for work, and a canvas covered the member's carport while a gray vehicle was parked in it. Police determined that the member had pretended the burglary of his television and stereo, which he had actually purchased from the exchange and then sold on the black market.

Two of 22 (9%) cases were detected by local police of the host nation. In one case, local police apprehended the member after observing him unloading cases of cigarettes at a local national's house. In the other case, the member was caught when local police confiscated cigarettes from a local national, who had bought them from the accused.

Interestingly, the two cases in which local police caught the member occurred in Japan in the 1950s; the two

cases in which military authorities caught the member occurred in the Philippines in 1993 and Korea in 1996. This seems to indicate that, over time, the responsibility for detecting black market crimes by U.S. service members shifted from local to U.S. military authorities. This may be due to the fact that SOFAs, which were drafted from the 1950s onward, usually stipulated that the forces stationed in the host nation were responsible for preventing their own members from black marketing in the host nation. Another possibility is that foreign nationals who purchased black market goods from U.S. service members were prosecuted within the penal system of their own host nation without U.S. knowledge or involvement.

Finally, two of the 22 (9%) cases were detected when inventory shortages of the goods were discovered.

Rank of Members

The average rank of service members involved in black marketing tax-free goods was E-4, regardless of how the goods were obtained. The only exceptions were the three cases in which goods were obtained via importation, which all involved junior officers (one O-2 and two O-3). Perhaps, this was because only personnel with such seniority would have had the high level contacts required to conduct this type of operation. These cases were previously discussed in some detail.

There was only one more case involving an officer which was not previously discussed. The officer was an O-3 serving in the position of Ration Control Officer. He took advantage of his position to procure and alter identification cards and ration control plates to which he had access in the normal course of his duties. He forged the names of and impersonated various foreign military personnel who had been transferred to the area to buy goods in excess of his assigned ration control limits. He variously posed as a Philippine O-3; Australian Army CW04; Swiss Army O-4; Swedish Army O-3, O-4, and O-5; and United Kingdom staff sergeant.

The specific rank breakdown of members involved in the 51 cases, from lowest to highest rank, with relevant numbers and percentages in parentheses, is as follows: E-1 to E-3 (23) (45%), E-4 to E-6 (17) (33%), E-7 to E-9 (7) (14%), and to O-3 (4) (8%). Note that members of lower rank were more likely to be involved in black marketing than members of higher rank. In fact, members E-1 to E-3 were three times more likely than members E-7 to E-9, and over five times more likely than junior officers, to be involved in such illegal operations. This could be due, however, to military force structure, whereby, there are more junior than senior members in the military.

Interestingly, the average rank of members involved in black marketing appears to have shifted upward through time. For example, the average rank of members who black marketed tax-free goods in the 1950s and 1960s was E-4, whereas, in the 1980s and 1990s, the average rank was E-6. This could indicate that, in more recent years, the benefits of black marketing have begun to outweigh the risks for more senior military personnel. Another possible explanation is that the military force structure changed through time, whereby, greater numbers of senior members entered the military.

Service Branch of Members

The following is a breakdown of the 51 cases involving the black marketing of tax-free goods by branch of service, from most to least frequent, with the relevant numbers and percentages indicated in parentheses: Air Force (25) (49%), Army (19) (37%), Navy (5) (10%), and Marine Corps (2) (4%). In the 1950s and 1960s, Air Force members committed most (57%) black market crimes involving tax-free items. In the 1980s and 1990s, Army members committed most (55%) such crimes.

All of the foregoing variations could be due to differences in end strength (i.e., size or number of members) of the various services, different deployment patterns (i.e., time period, length, location, and magnitude of overseas personnel deployments) among the services, or other factors.

Country in which Crimes Occurred

Fifty of the 51 cases involving tax-free goods stated the country in which the crime occurred. The following is a breakdown by country of the 50 cases, listed from most to least frequent, with relevant numbers and percentages in parentheses: Korea (16) (32%), Philippines (9) (18%), Japan (9) (18%), Germany (4) (8%), Spain (4) (8%), England (3) (6%), France (3) (6%), Turkey (1) (2%), and Italy (1) (2%). Of the 28 cases in the 1950s and 1960s, most occurred in Japan (9) (32%) and Germany (3) (11%). Of the 19 cases in the 1980s and 1990s, most occurred in Korea (12) (63%) and the Philippines (4) (21%).

Interestingly, despite the continuing presence of our military forces in Japan and Germany, none of the 50 cases occurred in Japan after the 1960s and only one case occurred in Germany after the 1960s.

Variances in the foregoing figures may be due to varying degrees of effectiveness in detecting or preventing black marketing, changing force deployment patterns, status of host nation economies, or other factors.

Year in Which Crimes Occurred

Fifty of the 51 cases involving black marketing of tax-free goods stated the year in which the crime occurred. The following is a breakdown by decade of the 50 cases, with relevant numbers and percentages in parentheses: 1950s

(23) (46%), 1960s (4) (8%), 1970s (4) (8%), 1980s (12) (24%), and 1990s (7) (14%). Once again, the foregoing differences among decades may be due to changes in force deployment patterns, variances in host nation economies, or variable degrees of effectiveness in controlling black marketing by U.S. service members during different time periods.

Illegal Transfers of Government Property

This section examines the 23 cases involving the black marketing of government property by U.S. service members. For purposes of this thesis, government property is defined as items owned by the U.S. government and not held for resale to members of the military or general public.

Types of Government Goods

Twenty-one of the 23 cases described the types of government goods which were black marketed by the service member. The following 16 types of government goods were black marketed by members, listed from most to least frequent, with relevant numbers and percentages out of a total 24 instances of black marketing (some cases listed more than one type of black market item) indicated in parentheses (percentages total more than 100 due to rounding): electron tubes (4) (17%), coffee (3) (13%), aircraft amplifiers (2) (9%), military clothing (2) (9%), medical equipment (2) (9%), aerial photographic film (1) (4%), pipe (1) (4%), jeep (1) (4%), linen sheets (1) (4%), truck tire

(1)(4%), petroleum products (1)(4%), paint (1)(4%), "c" rations (1)(4%), ship gyrocompass (1)(4%), ship power supply (1)(4%), and carbines (1)(4%). Electron tubes and coffee were black marketed more than other items, but not by a large margin.

Three of the four cases (75%) involving electron tubes occurred in Japan during the 1950s. Other products were black marketed in a variety of countries.

Acquisition of Government Goods

In all 23 cases, the government goods were stolen for subsequent sale on the black market. The majority of these cases (12 of 23 or 52%) were "inside" jobs, in which the accused members or their accomplices has special access to the goods by virtue of their job positions. For example, the following is a brief synopsis of these 12 "inside" jobs: (1) accused asked an Army supply sergeant to steal aerial photographic film from a supply room; (2) an Air Force troop issue warehouseman stole government coffee; (3) an Army supply sergeant stole "c" rations and carbines (he requisitioned the carbines without placing the requisition form in the unit file or adding the new number of carbines to the total on hand; he procured the "c" rations from another company on the pretext that the rations would be exchanged with yet another company for items which the accused was purportedly short); (4) an Army sergeant who

worked at a petroleum, oil and lubricating (POL) dump stole government petroleum products; (5) an Army truck dispatcher diverted a truckload of government coffee to the black market; (6) an Air Force supply representative in procurement stole electron tubes and reproduction paper; (7) an Army sergeant had access to forms that permitted the removal of government clothing from a warehouse; (8) a Navy fireman apprentice stole ship supplies from a boat at Port Services where he was assigned; (9) an Army private stole stored government clothing from the quartermaster laundry company where he worked; (10) an Army private stole government bed sheets from the supply room where he worked; (11) an Air Force communications equipment repairman stole government electron tubes; and (12) a Marine Corps private stole cans of government coffee from a Marine barracks mess hall to which he had access while he was on guard duty.

In five of the cases, the accused members acquired their goods in a variety of different ways: (1) an Army private acquired an Army jeep by shooting the jeep's driver; (2) an Air Force staff sergeant had two Filipino nationals steal medical equipment and supplies from an Air Force hospital; (3) an Air Force captain found a buyer for government radio tubes stolen by an airman; (4) an Army sergeant conspired with his fiancée and another service member to steal x-ray film from an Army hospital; and (5) an

Army sergeant conspired with a large group of individuals to steal radio tubes from an Army Signal Depot. Some of these cases may have been "inside" jobs, but lacked enough information to make such a determination.

The remaining six cases did not provide enough information to determine how the goods were acquired.

Source of Government Goods

Only 15 of the 23 cases indicated the source of the government goods. The following seven sources were mentioned in the 15 cases, from most to least frequent, with the relevant numbers and percentages in parentheses (percentages exceed 100 due to rounding): warehouse or storeroom (8) (53%), repair facility (2) (13%), ship (1) (7%), mess hall (1) (7%), supply requisition process (1) (7%), another member (1) (7%), and delivery truck (1) (7%).

Accomplices in Black Marketing Goods

In 14 of the 23 (61%) cases, accomplices were involved. Eleven of the 14 cases provided specific information about the types of accomplices involved. The following is a breakdown of the types of accomplices in the 11 cases, from most to least frequent, with the relevant numbers and percentages in parentheses (total exceeds 11 since some cases involved more than one type of accomplice): fellow service member (10) (77%), foreign national (2) (15%), and spouse (1) (8%). The following is a brief synopsis of the

accomplices involved in the 11 cases that provided detailed information: (1) a supply sergeant was asked by the accused member to provide aerial photographic film to sell on the black market; (2) a service member helped the accused to divert a truckload of coffee to the black market (both were military truck dispatchers); (3) the member conspired with his fiancée and another service member to steal x-ray film from a military hospital; (4) a service member helped the accused find a black market buyer for his stolen aircraft amplifiers; (5) the accused conspired with other service members to steal shipboard equipment for subsequent sale on the black market; (6) the accused conspired with three other service members to remove military clothing from a supply warehouse (the accused procured the forms necessary to permit removal of the clothing and the other members provided transportation and physically removed the clothing); (7) the accused conspired with two foreign nationals to steal medical equipment and supplies from a military hospital (the foreign nationals stole the goods and the accused provided transportation); (8) the accused conspired with fellow service members and a foreign national to steal government petroleum products (the service members helped steal the goods and the foreign national furnished a truck for transporting the goods); (9) the accused conspired with two fellow service members to steal government property

(type of property undisclosed); (10) a service member provided stolen government electron tubes to the accused for sale on the black market; and (11) the accused contacted an airman who found a buyer for the stolen government radio tubes of another airman.

Purchasers of Government Goods

In all 23 cases, government goods were sold to foreign nationals of the country where the black market operations were conducted. This was always the country in which the member was stationed.

Detection of Crimes

Only 12 of the 23 (52%) cases provided details on how the illegal operations were detected. Six of the 12 (50%) cases were discovered as a result of information provided by an informant. The following is a brief synopsis of the six cases: (1) a supply sergeant informed law enforcement authorities that he was approached by an airman to provide government photographic film for the black market (the airman was apprehended before the sale occurred); (2) an accomplice told criminal investigators that the accused was about to steal government property (accused was apprehended during the theft); (3) an undisclosed informant notified authorities that a truckload of government coffee was about to be diverted to the black market by the truck dispatcher (military police apprehended the driver before the coffee

was sold); (4) an undisclosed informant notified OSI officials that the accused was about to sell stolen aircraft amplifiers on the black market (officials intercepted the accused before the sale occurred); (5) a sergeant who himself was apprehended for black marketing government goods agreed to help officials apprehend other service members involved in black marketing, including the accused (with informant's help, officials apprehended accused prior to sale of stolen electron tubes on the black market); and (6) accused admitted to a government informant while sitting in the waiting room of the Office of Naval Intelligence that he stole and sold government pipe on the black market.

The remaining six cases were discovered in different ways. In the first case, host nation police discovered the stolen goods (carbines and "c" rations) at the home of a foreign national. In the second case, a base criminal investigator observed suspicious activity by the accused who, while on guard duty, placed government coffee cans in a water drainage system. Earlier that evening, the accused had reported as unlocked a door in the galley that was supposed to be locked in an attempt to implicate another member in the theft of the coffee. In the third case, a unit supervisor discovered an inventory shortage of electron tubes in electronic sets brought in for repair. The supervisor knew from experience that only 15% of the tubes

would be missing or defective in the sets, yet 44% were found missing, leading to apprehension of the accused. In the fourth case, a supply sergeant found the supply room door forced open, leading to apprehension of the accused who worked in the room. In the fifth case, two foreign nationals were caught while attempting to steal medical equipment and supplies from the storage room of a military hospital. They admitted that they had intended to steal the goods and then place them in the accused's vehicle for subsequent sale on the black market. In the sixth case, a corporal found a stolen government jeep belonging to another unit while attempting to locate a jeep missing from his own unit.

Rank of Members

The average rank of members who black marketed government goods was E-4. The following is a specific rank breakdown of members involved in the 23 cases, from lowest to highest rank, with the relevant numbers and percentages in parentheses (percentages total less than 100 due to rounding): E-1 to E-3 (12) (52%), E-4 to E-6 (7) (30%), E-7 to E-9 (3) (13%), and O-1 to O-3 (1) (4%). Note that members of lower rank were more likely to be involved in the black marketing of government goods than members of higher rank. For example, members E-1 to E-3 were four times more likely than members E-7 to E-9, and twelve times more likely than

junior officers, to engage in such illegal operations. This could be due to U.S. military force structure, whereby, there are more junior than senior members in the military.

Service Branch of Member

The following is a breakdown of the 23 cases by service branch, listed from most to least frequent, with relevant numbers and percentages indicated in parentheses (percentages total less than 100 due to rounding): Army (12) (52%), Air Force (7) (30%), Marine Corps (3) (13%), and Navy (1) (4%). The foregoing variations could be due to differences in end strength among the various services, different deployment patterns, or other factors.

Country in Which Crimes Occurred

Twenty-one of the 23 cases indicated in which country the crimes occurred. The following is a breakdown of the 21 cases by the country in which the crimes occurred, from most to least frequent, with the relevant numbers and percentages in parentheses: Japan (8) (38%), Korea (7) (33%), Philippines (3) (14%), Turkey (1) (5%), Germany (1) (5%), and France (1) (5%). Such variations could be due to differences in force deployment patterns, status of host nation economies, varying degrees of effectiveness in prosecuting black marketing by service members in the various countries, or other factors.

Year in Which Crimes Occurred

The following is a breakdown of the 23 cases by decade in which the crimes occurred, with the relevant number and percentages of cases in parentheses: 1950s (13) (57%), 1960s (9) (39%), and 1970s (1) (4%). The foregoing figures seem to indicate a steady decline in the number of black market cases involving government goods through time. In particular, note that there were no cases involving the black marketing of government goods in the 1980s or 1990s. The black marketing of government goods by military members may appear to be declining in more recent years due to one or more of the following factors: implementation of more effective preventative measures against black marketing of government goods by military members; a reduction in the number of such cases reaching the higher adjudicative levels of the military justice system; greater success by service members involved in the black marketing of government property in avoiding detection by law enforcement officials; or other factors.

Illegal Currency Transactions

This section examines the 11 cases involving illegal black market currency transactions by U.S. service members. The following is a breakdown of the three different types of illegal currency transactions conducted by U.S. service members, from most to least frequent, with the relevant

numbers and percentages in parentheses: laundering or concealing black market profits through currency conversion (6) (55%), profiteering from exchange rates (3) (27%), and counterfeiting (2) (18%). These transactions will be discussed in the following sections.

Types of Currency

The following is a breakdown of the types of currency involved in each of the 11 cases, from most to least frequent, with the relevant numbers and percentages in parentheses (total exceeds 11 because all the cases involved more than one type of currency): U.S. dollars or dollar instruments (legal tender) (8) (38%), MPC (legal tender) (8) (38%), U.S. dollars (counterfeit) (2) (9%), MPC (counterfeit) (1) (5%), MPC (outdated) (1) (5%), and foreign currency (1) (5%).

The type of currency involved in each crime closely correlated with the type of illegal currency transaction conducted. For example, five of the six (83%) cases which involved the laundering of black market profits through currency conversion entailed the conversion of MPC earned from the black market into U.S. dollars or dollar instruments (money orders or treasury checks). The sixth case involved an attempt to convert outdated MPC from an old MPC series obtained from the black market for MPC of a new series after the deadline for such exchanges had passed.

All three of the currency speculation cases involved an initial conversion of U.S. dollars into MPC or host nation currency on the black market (which yielded more MPC or host nation currency per dollar than the official rate) with a subsequent reconversion back again into U.S. dollars or dollar instruments at the official rate (which yielded more U.S. dollars per MPC or host nation currency than the black market rate and more U.S. dollars than the member originally started with).

Both of the two counterfeiting cases involved the possession or attempted transfer of counterfeit U.S. dollars. One of them also involved possession of counterfeit MPC.

Acquisition of Currency

Nine of the 11 (82%) cases disclosed how members acquired the type of currencies involved. The breakdown is as follows, from most to least frequent, with the relevant numbers and percentages in parentheses (percentages total less than 100 due to rounding): earned from black market operations conducted by member (4) (44%), member stole from military finance center (3) (33%), foreign national gave currency to member to exchange (1) (11%), and fellow service member gave currency to member to exchange (1) (11%).

In all six cases involving the laundering of black market profits, the accused members attempted to convert MPC

that was acquired from selling goods on the black market into U.S. dollars or dollar instruments. Four of the six (67%) cases involved MPC that the members themselves acquired through their own black market operations. In the fifth case, a foreign national offered to pay the accused to convert MPC that the foreign national had acquired from the black market into U.S. postal money orders. In the sixth case, a service member offered to pay the accused \$250 to convert outdated MPC that the service member had acquired from the black market into a new current series of MPC. In three of the six (50%) cases, the conversion of MPC into dollars was attempted at a military finance office. In the fourth case, the conversion was accomplished at a bank. The final two cases did not tell where the conversion was done.

All three of the currency speculation cases were "inside" jobs involving service members who worked at military finance offices and whose duties included converting currency for military personnel (two were 0-1/0-2 finance officers and one was an E-6 conversion cashier). The members stole large sums of U.S. currency from their finance offices, exchanged it for MPC or host nation currency at the higher black market rate, deposited enough of the MPC or host nation currency at the finance offices to "make the books balance" (amount deposited equaled the original amount taken at official exchange

rates) and pocketed the rest in U.S. dollars or dollar instruments as profit.

The three counterfeiting cases did not disclose how the members acquired the counterfeit dollars or MPC.

Source of Currency

Eight of the 11 (73%) cases indicated the source of the currency. The breakdown is as follows, from most to least frequent, with the relevant numbers and percentages in parentheses (percentages total less than 100 due to rounding): black market operations conducted by accused (4) (44%), military finance center where accused worked (3) (33%), foreign national (1) (11%), and fellow service member (1) (11%).

In all six cases involving laundering of black market profits, the MPC that U.S. service members were trying to convert was ultimately obtained from selling goods on the black market. In four of the six (67%) cases, the accused members earned the MPC from black market operations they conducted. In the fifth case, the accused received the MPC from a foreign national to convert. In the sixth case, the accused received the MPC from a fellow service member to convert.

In all three of the cases involving currency speculation, the members stole the money from the military finance centers where they worked.

The two counterfeiting cases did not disclose the source of the counterfeit dollars or MPC.

Accomplices in Crimes

Six of the 11 (55%) cases involved accomplices. Five of the six cases described the types of accomplices involved. The following is a breakdown of the types of accomplices involved in the five cases, from most to least frequent, with the relevant numbers and percentages in parentheses: fellow service member (4) (80%) and postal officer (1) (20%).

The following is a brief synopsis of the four cases which involved service members as accomplices: (1) accused offered \$100 bribes to other service members leaving for a period of rest and relaxation to exchange MPC into dollars for him (there were no conversion limits for personnel departing on such leave); (2) service member bribed accused with \$250 to exchange MPC into dollars; (3) service member offered to split half the proceeds if accused successfully sold a counterfeit U.S. twenty dollar bill to a foreign national; and (4) accused dealt in counterfeit U.S. dollars and MPC with fellow service member. In the fifth case involving an accomplice, the accused attempted to bribe a postal officer to convert MPC into postal money orders.

Both of the counterfeiting cases involved accomplices. Some of the conversion and speculation cases had accomplices and some did not.

Purchasers of Goods

Eight of the eleven (73%) cases indicated who purchased or exchanged the currency. The following is a breakdown of who purchased or exchanged the currency in the eight cases, with the relevant numbers and percentages in parentheses (percentages exceed 100 due to rounding): officials at military finance centers (6) (75%), officials at bank (1) (13%), and foreign national (1) (13%).

In three of the cases, the members attempted to convert MPC into dollars through officials at military finance centers. In three additional cases, the members themselves in their capacities as finance officials exchanged MPC into dollars at the military finance centers where they worked. In one case, the accused exchanged dollars for MPC at a bank. In the last case, the accused attempted to sell a counterfeit twenty dollar bill to a foreign national.

Detection of Crimes

Nine of the 11 (82%) cases indicated how the currency crimes were discovered. Most of the cases were detected in one of the following two ways: during an audit of financial records (3) (33%) or through information from an informant (2) (22%).

In two of the cases detected through audit, the accused members' illicit currency speculation activities were discovered during audits of their records at the military finance centers where they worked. One audit was conducted pursuant to questions raised by the accused's prospective relief during the job turnover. For example, the successor found 18 pages missing in a cash control book. In the other case, a routine audit determined excess MPC on hand when compared to accused's pay vouchers. In the third case, CID officials discovered that the accused had converted MPC into dollars in amounts exceeding his monthly limit through routine review of records from area financial institutions.

In one of the cases detected through informants, a government informant befriended the accused to observe how he solicited military members to convert MPC into dollars. The accused was then apprehended by law enforcement officials. In the other case, a fellow service member of the accused, when apprehended while in an unauthorized absent without leave status, told law enforcement authorities that the accused was dealing in counterfeit currency operations. Another service member, who lived in the room next to the accused, helped authorities set up a raid of accused's room. During the raid, military police found counterfeit U.S. fifty dollar bills and MPC.

The remaining four cases were discovered in different ways. In the first case, a foreign national contacted a military police patrol to apprehend the accused after he realized the twenty dollar bill he received from the accused was counterfeit. In the second case, the accused attempted to bribe a postal officer to convert MPC into postal money orders. The postal officer told the Provost Marshall and OSI officials, who subsequently apprehended the accused. In the third case, the accused attempted to convert outdated MPC into MPC of a new series at a military finance center. The cashier noticed that the MPC was outdated and notified his supervisor, who read the accused his article 31 rights. In the fourth case, the accused produced a falsified ration card when apprehended by officials while in an unauthorized absent without leave status. They later determined that the member converted MPC into a thousand dollar money order by using a forged authorization certificate.

Rank of Members

The average rank of members who conducted illegal currency transactions was E-5. The following is a specific rank breakdown of the 11 cases, from lowest to highest rank, with the relevant numbers and percentages of cases in parentheses (percentage total equals less than 100 due to rounding): E-1 to E-3 (4) (36%), E-4 to E-6 (5) (45%), E-7 to E-9 (0) (0%), O-1 to O-3 (1) (9%) and O-4 or above (1) (9%).

Members of lower rank were more likely to conduct illegal currency transactions than members of higher rank. For example, enlisted members were over four times as likely as officers to conduct such illegal transactions. Once again, however, this could be due to military force structure, which is comprised of more junior than senior members.

Service Branch of Members

The following is a breakdown of the 11 cases by service branch, listed from most to least frequent, with the relevant number and percentage of cases indicated in parentheses: Army (9) (82%) and Air Force (2) (18%). There were no cases of illegal currency transactions involving Navy or Marine Corps members. The variances in the foregoing breakdown could be due to differences in end strength among the various services, different force deployment patterns, or other factors.

Country in Which Crimes Occurred

The following is a breakdown of the 11 cases according to the country in which the crimes occurred, from most to least frequent, with the relevant number and percentage of cases indicated in parentheses: Vietnam (6) (55%), Germany (3) (27%), Japan (1) (9%), and Korea (1) (9%). Note that the country in which a crime occurred closely correlated to a certain time period. For example, all the six cases in Vietnam occurred during the 1960s and 1970s. Similarly, all

the three cases in Germany occurred during the 1950s. This was probably due to changing force deployment patterns, economic conditions in the host nations, or other factors.

Year in Which Crimes Occurred

The following is a breakdown of the 11 cases according to the decade in which the crimes occurred, with the relevant number and percentage of cases indicated in parentheses (percentage total is less than 100 due to rounding): 1950s (5) (45%), 1960s (4) (36%), and 1970s (2) (18%). There were no cases involving illegal currency transactions by U.S. service members that occurred in the 1980s and 1990s. This apparent decline in the number of illegal currency transactions conducted by U.S. service members may be due to one or more of the following factors: implementation of more effective preventative measures by law enforcement officials against illegal currency transactions by military members; a reduction in the number of such cases reaching the higher adjudicative levels of the military justice system; greater success by service members involved in illegal currency transactions in avoiding detection by law enforcement officials; changes in force deployment patterns or host nation economies; or other factors.

Comparison of the Three Types
of Black Market Operations

Table 2 provides a comparative analysis of the three different types of black-marketing operations (illegal transfers of tax-free goods, illegal transfers of government property, and illegal currency transactions) conducted by U.S. service members, which were discussed in the previous sections. This analysis is organized around the ten data elements applied to the cases and highlights the main features that characterize each type of black market operation.

TABLE 2

COMPARATIVE ANALYSIS OF THE THREE TYPES OF
BLACK MARKETING BY U.S. SERVICE MEMBERS

<u>Data Element</u>	<u>Illegal Transfers of Tax-Free Goods (60%)</u>	<u>Illegal Transfers of Government Goods (27%)</u>	<u>Illegal Currency Transactions (13%)</u>
Types of Goods	-1950s/1960s cigarettes (50%) -1980s/1990s electronic goods (33%)	-1950s electron tubes (17%), coffee (13%) -no cases in the 1980s or 1990s	-U.S. dollars (38%) -MPC (38%) -no cases in the 1980s or 1990s
Type of tax-free good depended on time period.			
Acquisition of Goods	-legal purchase (41%) -fraudulent purchase (21%) -theft (20%) (67% were "inside" jobs)	-theft (100%) (52% were "inside" jobs)	-earned from black market operations (44%) -theft (33%) (100% were "inside" jobs)
Most cases involving theft were "inside" jobs, in which the job positions of the members or the accomplices permitted them direct access to the stolen goods not generally available to others.			
Source of Goods	-military exchanges (84%)	-warehouse or storeroom (53%)	-black market operations (44%) -military finance center (33%)
Purchasers of Goods	-foreign national (100%)	-foreign national (100%)	-military finance center officials (75%)

Purchasers of tangible black market goods were
always foreign nationals of the host nation.
Officials at military finance centers usually
"purchased" or converted MPC into dollars.

TABLE 2 - Continued

<u>Data Element</u>	<u>Illegal Transfers of Tax-Free Goods</u>	<u>Illegal Transfers of Government Goods</u>	<u>Illegal Currency Transactions</u>
Accomplices?	-Not usually*	-Yes, usually	-Yes, usually
-percent of cases with accomplices	-35%	-61%	-55%
-type of accomplice	-service member (59%) -exchange employee (25%)	-service member (77%)	-service member (80%)

*Whether or not there were accomplices strongly correlated with the type of operation. For example, only 14% of cases involving the legal purchase of tax-free goods had accomplices, but 67% of cases involving theft of tax-free goods had accomplices.

Accomplices were usually fellow service members.

Detection of Crimes	-informant (32%) -review of sale documents (23%)	-informant (50%)	-financial audit (33%) -informant (22%)
	(two cases detected by Japanese law enforcement officials in the 1950s)	(one case detected by French police in 1962)	(no cases detected by host nation law enforcement officials)

Law enforcement officials relied heavily on informants to prosecute black market crimes. Nearly all crimes were detected by U.S. rather than host nation law enforcement officials.

Average Rank of Accused Members	E-4	E-4	E-5
	Overall average rank across all types of operations was E-4. Members of lower rank were more likely than members of higher rank to engage in black marketing. This could be due to military force structure, which is comprised of more junior than senior members.		

TABLE 2 - Continued

<u>Data Element</u>	<u>Illegal Transfers of Tax-Free Goods</u>	<u>Illegal Transfers of Government Goods</u>	<u>Illegal Currency Transactions</u>
Service Branch of Accused	-Air Force (57%) -Army (37%)	-Army (52%) -Air Force (30%)	-Army (82%) -Air Force (18%)

As expected, the two most populous U.S. services stationed in foreign host nations comprised the largest percentages of accused members. Variances in figures are probably due to differences in service end strengths, force deployment patterns, and/or other factors.

Country of Occurrence	-1950s/1960s Japan (32%) -1980s/1990s Korea (63%)	-1950s/1960s Japan (38%) Korea (33%) -No cases in 1980s/1990s	-1950s Germany (27%) -1960s/1970s Vietnam (55%) -No cases in 1980s/1990s
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Variances in figures may be due to changing force deployment patterns, varying degrees of effectiveness in prosecuting black marketing, differences in host nation economies, and/or other factors.

Year of Occurrence	-Occurred throughout the last five decades from the 1950s to the 1990s	-Occurred in only three decades: the 1950s, 1960s, and 1970s -No cases in the 1980s or 1990s	-Occurred in only three decades: the 1950s, 1960s, and 1970s -No cases in the 1980s or 1990s
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Variances in decades in which cases occurred for the different types of black market operations may be due to varying degrees of effectiveness in detecting and prosecuting the various types of operations, differences in host nation economies, or other factors.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This chapter will provide conclusions of the study, recommendations, and areas for further research.

Conclusions of the Study

This section will present the conclusions reached from analyzing the legal cases of U.S. service members prosecuted for their black marketing activities.

Variety of Mechanics Complicates Prevention Efforts

This study has shown that a variety of mechanics have been employed by U.S. service members in conducting their black market operations. For example, service members black market three different types of goods: tax-free, government, and currency. Such goods were procured in a variety of different ways (i.e., legal or fraudulent purchase, theft, importation, intermediary purchaser, counterfeiting) from a variety of different sources (i.e., exchanges, commissaries, warehouses, military finance centers). Dozens of different types of goods have been black marketed, including whiskey, soap, aircraft amplifiers, electron tubes, and x-ray film. In particular, members gravitated to the products most in demand by residents of the foreign host nation, such as cigarettes and watches in the 1950s and 1960s in Japan and electronic goods in the 1980s and 1990s in Korea.

Service members of all ranks have been involved in black marketing, although members of lower rank predominate. Members from all service branches--Navy, Marine Corps, Army, and Air Force--have engaged in black marketing, with the latter two more populous branches most heavily represented. Members have black marketed in many countries, including Japan, Korea, France, England, Italy, Spain, Vietnam, Germany, Philippines, and Turkey.

The foregoing variety of mechanics in the black marketing of goods by service members helps explain why, according to Rundell, the Army became disillusioned in its efforts to prevent black marketing by its members: "Although [the Army] tried to keep its personnel out of the black market, it realized that no amount of persuasion would deter the enterprising instincts of some officers and enlisted men."⁹² Similarly, the cases in this study encompass five decades, from the 1950s to the 1990s. Yet, after nearly fifty years of experience in trying to control black marketing by its service members, the U.S. has still not determined how best to reduce or eliminate the problem.

Predominance of Tax-Free Goods Will Challenge U.S. Prevention Efforts

During the 1980s and 1990s, U.S. service members seemed to black market predominantly tax-free goods rather than government goods or currency. This is evidenced by the fact

that all cases in this study during the 1980s and 1990s involved the black marketing of only tax-free goods. This may be due to one or more of the following factors: economic conditions in host nations were not conducive to the black marketing of government goods or currency; more effective prevention controls were instituted by the U.S. or host nations; such cases were not reaching the higher adjudicative levels of the military justice system; members who engaged in the black marketing of government goods or currency were successfully evading detection by law enforcement officials; or other factors.

Assuming that service members are, in fact, black marketing mainly tax-free goods, such a situation presents special challenges for U.S. prevention efforts. This is because a plurality (41%) of tax-free goods in this study were acquired by members through legal purchase. In other words, the dollar values and quantities of such purchases were within the ration control limits of the service member and took place during the normal course of business in military exchanges or commissaries. Consequently, such purchases initially went largely unnoticed by law enforcement or exchange officials. Members then illicitly sold the goods on the black market off military premises, in the surrounding community, where the ability of military officials to control the environment to minimize such

illicit behavior is greatly reduced. In contrast, the theft or fraudulent purchase of commissary or exchange goods is criminal activity taking place on military premises, offering an increased ability to detect and prevent such illicit activity by controlling the military environment.

Perhaps, such greater difficulty in detecting the black marketing of tax-free goods obtained through legal purchase explains why this type of black market operation has been the most prevalent among service members during the 1980s and 1990s.

As mentioned previously, however, one reason why the incidence of black marketing of government goods and currency by U.S. service members may seem to be declining in recent years may be because members have been more successful in evading detection by law enforcement officials. If such is the case, then these types of black market operations will also present unique challenges to U.S. prevention efforts.

Host Nations Provided Little Support

Nearly all cases were detected by U.S. rather than host nation law enforcement officials. Only three cases were detected by host nation officials: two in Japan during the 1950s and one in France in 1962. This is not surprising since most SOFAs, which were written since the 1950s, stipulated that the U.S. is fully responsible for preventing

black marketing by its members in host nations. In all 74 cases involving the black marketing of tax-free and government goods, however, foreign nationals were the purchasers of the goods. Consequently, U.S. prevention efforts target only half the problem, which is the involvement of its service members in black market operations in foreign countries. Host nations do not help target the other half of the problem, which is the involvement of their citizens in black market operations conducted by U.S. service members.

U.S. Ration Controls Appear Ineffective

Ration controls implemented by the U.S. to prevent and detect black marketing by U.S. service members seem inadequate. For example, this study indicates that law enforcement officials have relied primarily on informants rather than controls to detect the black marketing of tax-free and government goods, and secondarily on informants to detect the black marketing of currency by U.S. service members. Relying on informants, however, is a haphazard rather than systematic method of prevention or detection, indicating that U.S. ration controls must be even more unreliable. The results of this thesis support actions by Congress to reduce U.S. ration controls, as reported in a July 1991 *Wall Street Journal* article: "With 'ration control' failing, Congress complained and the Pentagon cut

the enforcement budget to \$3 million. In May [1991], without enough enforcement funds, the U.S. military lifted most ration controls."⁹³ Instead of haphazardly trying to control black marketing by U.S. service members, the U.S. should attempt to eliminate its root causes, as discussed in the next section.

Recommendations

As previously discussed, black marketing by service members has been difficult to control due to the following four factors: (1) service members employ a wide variety of mechanics in conducting their black market operations; (2) service members currently black market mainly tax-free goods that were acquired through legal purchase, which is difficult to deter or detect; (3) foreign host nations make little effort to prosecute or deter their citizens from engaging in black market operations with U.S. service members; and (4) U.S. ration controls appear ineffective.

This study recommends that the U.S. take the following actions to more effectively and economically reduce or eliminate black marketing by its service members: reduce foreign trade barriers, revise existing SOFAs, refocus U.S. prevention efforts, and conduct additional research. Each of these recommendations will be discussed in turn in the following sections.

Reduce Foreign Trade Barriers

Most importantly, the U.S. should redouble its diplomatic efforts to encourage foreign host nations to reduce or, preferably, eliminate their inequitable trade barriers and domestic policies against foreign imports. Such actions would help eliminate or minimize the economic conditions that are the root cause of black marketing, thereby, reducing or eliminating such illicit activity by U.S. service members.

The positive results of such actions would include the following: an enhanced business climate that would provide U.S. businesses (and those of other countries) better opportunities to introduce and sell their products in foreign host nations; lower prices and increased availability of foreign products for citizens in the host nation; increased availability of products in commissaries and exchanges for military members as black marketing of such products is reduced or eliminated; and immense cost savings for the U.S. government as the need for elaborate monitoring systems and extensive legal efforts to prevent, detect, and prosecute black marketing by U.S. service members is reduced and ultimately eliminated.

In today's global economy, countries will be pressured to conform to international economic standards, such as open trade among nations without barriers. As pointed out by

Ralph C. Bryant in his book *International Financial Remediation*, "Relative to earlier decades, there is much less scope for an individual nation to maintain financial conditions within its borders different from those prevailing abroad."⁹⁴ Paul A. Volcker and Toyoo Gyohten in their book *Changing Fortunes* discuss the policy of international coordination:

Put plainly, coordination commits a government to take actions on the basis of international consultation that are different from those it might otherwise have taken, often in conjunction with decisions other countries are making that they might not otherwise have made. . . . The rationale is that, in the end, all countries will be better off in reaching both domestic and international objectives if their actions complement each other.⁹⁵

Under increasing international pressure, countries are already modifying their economic and financial policies. Switzerland, for example, no longer permits anonymous bank accounts, thereby, eliminating one of the world's most infamous refuges for money laundering by criminals.⁹⁶

Until the economic conditions that give rise to black marketing by service members are greatly modified or completely eliminated, however, the U.S. should take the following additional steps: revise currently existing SOFAs, refocus its prevention efforts, and conduct additional research on black marketing. Each of these recommendations will be discussed in turn in the following sections.

Revise Existing SOFAs

This study strongly recommends that current existing SOFAs between the U.S. and foreign host nations be revised in one of two ways to more equitably share the burden of preventing black marketing by U.S. military members in foreign host nations. One way is to add a provision requiring that the foreign host nation is responsible for ensuring that its citizens do not engage in black marketing, especially with foreign military forces stationed within its borders. A clause should also be added that failure of either party to enforce their part of the provision nullifies the entire provision, including the responsibility of the other party. The foregoing changes would ensure that neither the U.S. nor the host nation shoulders a disproportionate share of the burden in enforcing the provision.

Another way to alter the SOFAs is to completely eliminate the provision that the U.S. is responsible for ensuring that its members do not engage in black marketing in foreign host nations. This would be another way to eliminate the inequities in the current SOFAs, which require the U.S. to shoulder the full burden of preventing black marketing by its members in foreign host nations.

Regardless of which of the foregoing ways is selected for revising the SOFAs, the U.S. should also refocus its efforts to reduce black marketing, which is discussed next.

Refocus U.S. Prevention Efforts

Results of this study suggest that current efforts to reduce black marketing by U.S. service members in host nations should be refocused in several ways, as discussed in the subsections below.

Focus on Trouble Areas. To maximize limited resources, U.S. prevention and detection efforts should concentrate on obvious trouble areas, such as the black marketing of tax-free goods, since all nineteen cases in this study which occurred in the 1980s and 1990s involved the black marketing of such goods. For example, since this study indicated that 21 percent of tax-free goods were acquired by members through fraudulent purchase, more effective methods of identifying purchasers should be considered. The use of fingerprinting, for example, would deter members from impersonating others, since members would be unable to provide another individual's fingerprint on demand.

In addition, this study indicated that 20 percent of tax-free goods were acquired through theft. Consequently, the military should consider implementing in its exchanges the same types of merchandise control systems used in civilian department stores. If such systems are not cost-

effective on a large scale, then perhaps they could be implemented on a more limited scale for certain goods, such as electronic products, which are most frequently black marketed.

Also, since 67 percent of such thefts are "inside" jobs, such internal controls as "two-person integrity" (TPI) should be implemented whenever possible. Under TPI, two individuals must be present to unlock safes or warehouses, or conduct certain operations such as verification of funds. TPI would also be valuable in government warehouses to help deter "inside" thefts of government goods and in military finance centers to control large sums of currency to help prevent black market currency operations.

Note that although there were no cases in this study involving the black marketing of government goods or illegal currency transactions during the 1980s or 1990s, vigilance and effective internal controls should be maintained to prevent their resurgence.

Ensure Congruence of Goals/Controls. In this study, exchange employees were accomplices in 25 percent of black market cases involving tax-free goods. This suggests that military commanders must ensure that the goals they establish for their subordinates do not conflict with the controls they implement to prevent black marketing. For example, exchange managers may be lax in enforcing ration

control limits if their job performance is judged on the basis of total sales volume but enforcing the limits would reduce the sales volume. One solution would be to factor in the successful enforcement of ration control limits or internal controls as part of the evaluation of an employee's job performance.

Conduct Additional Research

Finally, to validate the results, conclusions, and recommendations of this study, further research should be conducted concerning black marketing by U.S. service members, as discussed in the next section.

Areas for Additional Research

First, the results of this study should be validated by studying a more comprehensive group of black market cases. For example, court cases involving black marketing by U.S. service members should be procured at lower levels in the military justice system to allow examination of the more complete and comprehensive case records generally available at such levels. There were no appealed court-martial cases in this study that occurred during the 1980s or 1990s that involved the black marketing of government goods or currency. Examining cases at lower levels would help determine whether such cases were simply adjudicated at lower rather than higher levels in the military judicial

system. The judge advocates at various military installations could be contacted to provide such records.

Additionally, the conditions which give rise to black marketing by U.S. service members in general and to specific types of black marketing by members in particular merit further study. For example, as mentioned previously, there were no cases in this study involving the black marketing of government goods or currency that occurred in the 1980s or 1990s. All cases during these decades involved the black marketing of only tax-free goods. Perhaps, economic factors or the effectiveness of various types of controls explain this situation. Determining such factors may help shed light on how to prevent the various types of black marketing by U.S. service members in the future.

Finally, further research should be conducted to determine the effects of altering terms in the currently existing SOFAs between the U.S. and various host nations. Any resulting economic impacts in the U.S., host nation, or other nations should be determined to the extent possible to avoid any major national, regional, or international economic instability.

Concluding Statement

Despite five decades of U.S. efforts to prevent black marketing by its service members in foreign host nations, such illegal behavior continues. This is because the U.S.

is fighting the symptoms rather than the root cause of black marketing by its members. Economic conditions in host nations are the real cause of black marketing by U.S. service members. In particular, in peacetime, host nations' restrictive trade barriers against foreign imported goods encourage black marketing to occur. Consequently, the U.S. should concentrate its prevention efforts on diplomatically persuading foreign host nations to eliminate their discriminatory trade barriers against foreign products.

Until such efforts prove successful, however, the U.S. should also revise its existing SOFAs to ensure that foreign host nations more equitably share the burden of preventing black marketing within their borders. Additionally, due to limited resources, the U.S. should refocus its prevention efforts on the most problematic areas, such as the black marketing of tax-free goods, and ensure that employee goals are properly aligned with controls. Better yet, eliminate such controls altogether, since they have, historically, proven to be both costly and ineffective.

The foregoing steps would help reduce or eliminate the incidence of black marketing by U.S. service members in foreign host nations, thereby minimizing the negative effects of such illicit activity on the U.S. national security strategy.

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¹⁷ Congress, Senate, *South Korean Trade Practices*, 3-4.

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²⁰ Congress, Senate, *South Korean Trade Practices*, 3 and 11.

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²³ Walter Rundell, Jr., *Black Market Money: The Collapse of U.S. Military Currency Control in World War II* (Binghamton: Louisiana State University Press, 1964), 6-7.

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²⁶ Rundell, *Black Market Money*, 54-55.

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³¹ Petrov, *Money and Conquest*, 205.

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- ⁶⁴ Kyre and Kyre, *Military Occupation*, 37.
- ⁶⁵ Ibid., 139.
- ⁶⁶ Coles and Weinberg, *Soldiers Become Governors*, 3-4.
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- ⁶⁸ Rundell, *Black Market Money*, 9 and 54.
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- ⁷⁰ Ibid.
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- ⁷⁵ Congress, Senate, *South Korean Trade Practices*, 13, 19 and 65.
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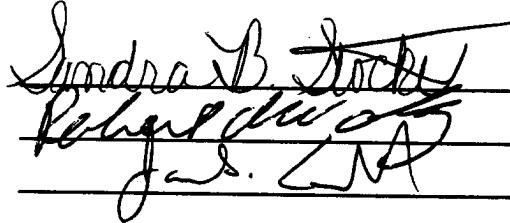
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